寶沙發展

# China Bozza Development Holdings Limited

# 中國寶沙發展控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

*(Stock Code: 01069)*

# ANNUAL REPORT 2019

# Contents

# Corporate Information

## DIRECTORS

### Executive Directors:

Mr. Lei Zuliang (Resigned with effect from 1 February 2019)
Mr. Wang Yue *(Chairman, until 24 July 2019)*
Professor Fei Phillip
*(Chairman, from 24 July 2019)*
Mr. Li Wenjun (Appointed on 1 July 2019)
Mr. Wong Hiu Tung (Appointed on 19 July 2019)
Ms. Feng Jiamin (Appointed on 20 August 2019)
Ms. Lu Wei (Appointed on 22 August 2019)

### Non-executive Director:

Professor Liu Zhikun
(Resigned with effect from 22 August 2019)

### Independent Non-executive Directors:

Ms. Tian Guangmei
Mr. Liang Guoxin
Mr. Liu Zhaoxiang

## AUDIT COMMITTEE

Ms. Tian Guangmei *(Chairman)*
Mr. Liang Guoxin
Mr. Liu Zhaoxiang

## REMUNERATION COMMITTEE

Mr. Liang Guoxin *(Chairman)*
Professor Fei Phillip (Appointed on 24 July 2019)
Mr. Liu Zhaoxiang
Mr. Lei Zuliang
(Resigned with effect from 1 February 2019)
Mr. Wang Yue (Appointed on 1 February 2019 and resigned with effect from 24 July 2019)

## NOMINATION COMMITTEE

Mr. Liu Zhaoxiang *(Chairman)*
Professor Fei Phillip (Appointed on 24 July 2019)
Mr. Liang Guoxin
Mr. Lei Zuliang
(Resigned with effect from 1 February 2019)
Mr. Wang Yue (Appointed on 1 February 2019 and resigned with effect from 24 July 2019)

## COMPANY SECRETARY

Mr. Ding Liang CGA, ACCA
(Resigned with effect from 26 April 2019)
Mr. Leung Man Kit FCPA

## AUTHORISED REPRESENTATIVES

Mr. Lei Zuliang
(Resigned with effect from 1 February 2019)
Mr. Wang Yue (Appointed on 1 February 2019 and resigned with effect from 24 July 2019)
Professor Fei Phillip (Appointed on 24 July 2019)
Mr. Leung Man Kit FCPA

## INDEPENDENT AUDITORS

CCTH CPA Limited
*Certified Public Accountants*

## REGISTERED OFFICE

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1002–1003, 10/F
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

## HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Room 1901, 19F
Dachong International Centre
Tonggu Road, Nanshan District
Shenzhen City
Guangdong Province
China

## CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKER

China Construction Bank (Asia) Corporation Limited
11/F, Devon House
979 King's Road
Quarry Bay, Hong Kong

## COMPANY WEBSITE

www.chinacaflc.com

## STOCK CODE

01069

# Financial Highlights

## ANNUAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

- Revenue for the financial year ended 31 December 2019 amounted to approximately Renminbi ("**RMB**") 54.2 million (2018: RMB51.4 million), representing an increase of approximately 5.6% as compared with corresponding period in 2018.

- Segment revenue from the container house business, forestry business, and money lending business for the financial year ended 31 December 2019 were approximately RMB11.1 million (2018: RMB25.1 million), RMB36.8 million (2018: RMB20.5 million) and RMB6.3 million (2018: RMB5.7 million) respectively.

- Segment results from the container house business, forestry business and money lending business for the financial year ended 31 December 2019 were loss of approximately RMB4.6 million (2018: loss of RMB48.4 million), loss of approximately RMB83.9 million (2018: profit of RMB6.3 million) and loss of approximately RMB122.7 million (2018: profit of RMB2.3 million) respectively.

- Loss attributable to the owners of the Company for the financial year ended 31 December 2019 amounted to approximately RMB340.5 million (2018: RMB65.3 million), representing an increase in loss of approximately 421.8% as compared with corresponding period in 2018.

- Total comprehensive expense attributable to the owners of the Company for the financial year ended 31 December 2019 amounted to approximately RMB348.4 million (2018: total comprehensive expense RMB77.8 million), representing an increase of approximately 348.1% as compared with corresponding period in 2018.

- The gearing ratio for the financial year ended 31 December 2019 was approximately 57.1% (2018: 32.5%), representing an increase of 24.6% as compared with corresponding period in 2018.

- Basic loss per share for the financial year ended 31 December 2019 amounted to RMB3.09 cents (2018: RMB0.89 cents).

- The board (the "**Board**") of directors of the Company (the "**Directors**") does not recommend the payment of a final dividend for the financial year ended 31 December 2019 (2018: nil).

# Chairman's Statement

On behalf of the Board, I am pleased to present to our valued shareholders and investors the annual report (the "**Annual Report**") of China Bozza Development Holdings Limited (formerly "China Agroforestry Low-Carbon Holdings Limited") (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the financial year ended 31 December 2019.

Looking ahead, we continue to evaluate commercial feasibility of various competitive projects and products with the aim to expand and diversify our business lines. The Group will clearly face new challenges and pressures in 2020, and in particular with respect to the challenges surrounding the operational environment brought by the recent outbreak of the novel coronavirus (COVID-19). The Group will proactively shoulder its business responsibility and will diligently maintain the stable operation of its businesses with a view to minimising the impact brought by the epidemic to the Group to the greatest extent.

In conclusion, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and others who have extended their invaluable support to the Group and my fellow directors and all staff for their considerable contributions to the Group.

On behalf of the Board
**Professor Fei Phillip**
*Chairman and Executive Director*

Shenzhen, the PRC, 28 April 2020

## BUSINESS AND OPERATIONAL REVIEW

The Group is principally engaged in the businesses of (a) forestry management; (b) money lending; and (c) provision of management and related services for the leases of container houses.

### Forestry Management Business

As at 31 December 2019, the long-lease forest lands in the PRC owned by the Group were approximately 21,045 Chinese Mu (equivalent to approximately of 1,403 hectares), 9,623 Chinese Mu (equivalent to approximately of 642 hectares), 13,219 Chinese Mu (equivalent to approximately of 881 hectares), 30,653 Chinese Mu (equivalent to approximately 2,044 hectares) and 42,814 Chinese Mu (equivalent to approximately of 2,854 hectares), in Muma Town of Jiange County of Sichuan Province (the "**Hengchang Forest**"); Zhengxing Town of Jiange County of Sichuan Province (the "**Kunlin Forest**"); Yixing Town of Jiange County of Sichuan Province (the "**Senbo Forest**"); Longyuanzhen, Houshixiang and Dianzixiang town of Jiange County of Sichuan Province (the "**Ruixiang Forest**"); and Kaifeng Town, Yingshui village, Guangping village, Zheba village of Jiange County of Sichuan Province (The "**Wantai Forest**" together with the Hengchang Forest, Kunlin Forest, Senbo Forest, Ruixiang Forest and Wantai Forest, the "**Forests**"), respectively.

The Group obtained the relevant annual logging permit for the Hengchang Forest, the Senbo Forest, Ruixiang Forest, Kunlin Forest and the Wantai Forest, from the relevant PRC authority in the year ended 31 December 2019.

The **Hengchang Forest** is held by China Timbers Limited ("**China Timbers**", together with its subsidiaries "**China Timbers Group**"), through its wholly-owned subsidiaries. China Timbers was acquired by the Group on 28 May 2013. The Group harvested timber logs of approximately 3,065 cubic metres (2018: 2,837 cubic metres) in the Hengchang Forest during the year ended 31 December 2019. As at 31 December 2019, the Hengchang Forest was estimated to comprise of approximately 1,389 hectares of cypress.

The **Kunlin Forest** is held by China Timbers through its wholly-owned subsidiaries. The Kunlin Forest had a total leasehold land base of approximately 9,623 Chinese Mu (equivalent to approximately 642 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Kunlin Forest. During the year under review, the Group harvested timber logs of approximately 1,631 cubic metres (2018: 3,841 cubic metres) in the Kunlin Forest. As at 31 December 2019, the Kunlin Forest is estimated to comprise of approximately 642 hectares of cypress.

The **Senbo Forest** is held by Huxiang International Holdings Limited ("**Huxiang**" together with its subsidiaries "**Huxiang Group**"), through its wholly-owned subsidiaries. Huxiang was acquired by the Group on 11 October 2016. The Senbo Forest had a total leasehold land base of approximately 13,219 Chinese Mu (equivalent to approximately 881 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Senbo Forest. During the year under review, timber logs of approximately 2,141 cubic metres (2018: 2,113 cubic metres) in respect of Senbo Forest was harvested and the fair value of the timber logs harvested amounted to approximately RMB1,468,000 (2018: RMB1,415,000), which was estimated by reference to their fair value less costs to sell, was transferred to cost of inventories sold. As at 31 December 2019, the Senbo Forest is estimated to comprise of approximately 881 hectares of cypress with approximately 171 hectares of tree plantations aged 40 years or older.

The **Ruixiang Forest** is held by Garden Glaze Limited ("**Garden Glaze**" together with its subsidiaries "**Garden Glaze Group**"), through its wholly-owned subsidiaries. Garden Glaze was acquired by the Group on 6 June 2017. The Ruixiang Forest had a total leasehold land base of approximately 30,653 Chinese Mu (equivalent to approximately of 2,044 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Ruixiang Forest. During the year under review, timber logs of approximately 3,135 cubic metres (2018: 3,125 cubic metres) in respect of Ruixiang Forest was harvested and the fair value of the timber logs harvested amounted to approximately RMB2,057,000 (2018: RMB2,239,000), which was estimated by reference to their fair value less costs to sell, was transferred to cost of inventories sold. As at 31 December 2019, the Ruixiang Forest is estimated to comprise approximately 2,044 hectares of cypress with approximately 9 hectares of tree plantations with aged 40 years or older.

On 24 August 2018, the Group acquired the entire equity interest in Today Bridge Limited ("**Today Bridge**") and its subsidiaries (collectively referred to as the "**Today Bridge Group**") which principally holds plantation forest assets in Kaifeng Town, Yingshui village, Guangping village, Zheba village, Jiange County of the Sichuan Province in the PRC ("**Wantai Forest**"). The Wantai Forest had a total leasehold land base of approximately 42,814 Chinese Mu (equivalent to approximately of 2,854 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Wantai Forest. During the year under review, timber logs of approximately 4,758 cubic metres (2018: Nil) in respect of Wantai Forest was harvested and the fair value of the timbers logs harvested amounted to approximately RMB2,342,000 (2018: Nil), which was estimated by reference to their fair value less costs to sell, was transferred to cost of inventories sold. As at 31 December 2019, the Wantai Forest is estimated to comprise approximately 2,854 hectares of cypress.

For the year of 2019, the forestry management business of the Group achieved revenue of RMB36.8 million (2018: RMB20.5 million), which accounted for 67.9% of the total revenue.

## Money Lending Business

The Company's wholly-owned subsidiary, namely, Forever Biosource (Credit) Limited, is engaged in money lending business and recorded revenue of approximately RMB6.3 million (2018: RMB5.7 million) as interest income during the financial year ended 31 December 2019.

## Container House Business

Generally, the manufacturing and maintenance of the container houses, along with its accessories, including furniture, interior decoration, and other facilities, needs substantial amount of wood materials. As the Group is also involved in the forest land business in the foreseeable future, it has the capability to provide sufficient raw materials to satisfy the demand of wood materials in container house business.

The Group currently conducts container house business through Shenzhen Heng Fu Delaisi Intelligent Housing Limited* (深圳恒富得萊斯智能房屋有限公司) and the relevant PRC subsidiaries.

During the year ended 31 December 2019, the Group achieved a revenue of RMB11.1 million (2018: RMB25.1 million), which accounted for 20.43% of the total revenue.

* *for identification purpose only*

## SIGNIFICANT INVESTMENT OR ACQUISITIONS AND DISPOSAL

Save as disclosed in this report, there were no significant investment held or material acquisitions and disposals of subsidiaries for the year ended 31 December 2019.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As disclosed in the Company's announcement dated 23 December 2019, the Company, as the potential purchaser (the "**Potential Purchaser**"), entered into a non-legally binding letter of intent (the "**LOI**") with a potential vendor (the "**Potential Vendor**"). Pursuant to the LOI, the Company intends to acquire (the "**Proposed Acquisition**") part of the issued share capital in Hunan Heijinlu Wine Industry Sales Co., Ltd., a subsisting company incorporated under the laws of the People's Republic of China (the "**PRC**") with limited liability (the "**Target Company**"). As at the date of the LOI, the Potential Vendor holds the entire issued share capital of the Target Company. The Target Company and its subsidiary (the "**Target Group**") are principally engaged in the business of research and development, production and sale of dark liquor in the PRC.

Pursuant to the LOI, the Company may conduct due diligence review on, including but without limitation, the financial, legal affairs and business of the Target Group upon signing of the LOI. The Potential Vendor shall use their best endeavours to procure the Target Group and its agent to provide such assistance and information as is necessary for the Company to complete its due diligence review on the Target Group.

During the period of 90 days from the date of the LOI (or such other date as agreed between the Company and the Potential Vendor) (the "**Exclusivity Period**"), the Potential Vendor shall not directly or indirectly negotiate or agree with any other party with respect to the disposal of the Target Group.

As at 31 December 2019, the Company was pending the due diligence review of the Target Group.

Save as disclosed above, the Group had no other future plans for material investments or capital assets as of 31 December 2019.

### Terminated business plans

As disclosed in the announcement of the Company dated 6 August 2019 (concerning a memorandum of understanding of acquiring target group with business of research and development, sale and production of smart phones in the PRC (the "**Mobile Phone MOU**")), the Company has considered to explore the possibility of diversification of the business of the Group with conducting smart phones business. The Group has separately conducted certain test trading of mobile phones during the year ended 31 December 2019 but did not consider it to be profitable and did not pursue further the mobile phone business. Taking into account the prevailing market and regulatory conditions of the smart phone business, business opportunities and financial position of the Group at the material time, the Group did not enter into any formal agreement in relation to the Mobile Phone MOU.

## FUND RAISING ACTIVITIES

During the year ended 31 December 2019, in order to support the development of the Group's forestry management business and the container house business, the Group has engaged in certain fund raising activities, details of which are set out as follows:

### Issue of corporate bonds

During the year ended 31 December 2019, the Company entered into subscription agreement with 9 independent private investors pursuant to which the investors have agreed to subscribe and the Company has agreed to issue the corporate bonds in the aggregate principal amount of HK$32.9 million at par value, bearing interest rates of 5% to 10% per annum and maturity date is 1 years to 1.5 years from the date of issue.

At the end of the reporting period, the corporate bonds payable with the principal amount of HK$276 million (2018: HK$253.2 million) remained outstanding. The net proceeds from the corporate bonds, after deducting the placing commission and other related expenses payable by the Company, were approximately HK$32.9 million. The actual use of proceeds is as follows: (i) approximately HK$20.7 million for the repayment of liabilities; and (ii) approximately HK$12.2 million for general working capital, such as staff salaries and occupancy cost.

### Issue of promissory note

***Promissory note issued on 28 May 2013 (the "Note A")***

On 28 May 2013, the Company issued the Note A with the principal amount of HK$144,000,000 as part of the consideration for the acquisition of certain subsidiaries. The Note A, which is unsecured, bears interest at 3% per annum for the first two years from the date of issue and 8% per annum thereafter, and is payable on the maturity date of 28 May 2018 at the principal amount. The Company is also entitled to redeem the whole or part of the Note A at the principal amount at any time before the maturity date.

During the year ended 31 December 2013, the Company repaid part of the Note A with the principal amount of HK$25,000,000 for cash consideration of HK$25,000,000.

During the year ended 31 December 2014, the Company repaid part of the Note A with the principal amount of HK$90,497,000 for cash consideration of HK$90,497,000. At 31 December 2014, the Note A with the principal amount of HK$28,503,000 (2013: HK$119,000,000) remained outstanding.

During the year ended 31 December 2015, the Company redeemed part of the Note A with the principal amount of HK$1,000,000 at cash consideration of HK$1,000,000. During the year ended 31 December 2017, no part of the Note A was redeemed.

Reference is made to the announcement of the Company dated 23 May 2018, the Company and the corresponding Note A holders mutually agreed to extend the maturity date of Note A with the said outstanding principal amount and the said corresponding outstanding interest to 28 August 2018.

Reference is also made to the Company's announcement dated 28 August 2018, all outstanding principal amount of the Note A, being HK$27,503,000 and the corresponding outstanding interest, being HK$892,139.13 have been fully repaid by the Company on 28 August 2018.

***Promissory note issued on 6 June 2017 (the "Note B")***

On 31 May 2017, the Company and the vendors, six independent third parties entered into an acquisition agreement, pursuant to which, among other things, the Company has conditionally agreed to acquire the entire issued share capital in Garden Glaze, at total consideration of HK$170,000,000, to be satisfied by the issue of the Promissory Note (being the "**Note B**") to the vendors. Garden Glaze is an investment holding company incorporated in the BVI with limited liability. Through its wholly-owned subsidiaries, Garden Glaze indirectly wholly holds the entire equity interest in Jiange Ruixiang Linye Company Limited, which is principally engaged in the plantation, harvesting and selling of timber in the forests, and possesses the Ruixiang Forest and the right to be engaged in the operations and management of the Ruixiang Forest. The Note B bears an interest at 5% per annum for two years and is payable on the maturity date of 5 June 2019. During the year ended 31 December 2017, the Company redeemed part of the Note B with the principal amount of HK$86,200,000 for cash consideration of HK$86,200,000. During the year ended 31 December 2018, the Company redeemed part of the Note B with the principal amount of HK$60,000,000 for cash consideration of HK$60,000,000. At 31 December 2019, the Note B with the principal amount of HK$23,800,000 remained outstanding.

***Promissory note issued on 21 November 2017 (the "Note C")***

On 2 March 2017, YuePengDa Forestry (Shenzhen) Limited*, an indirect wholly-owned subsidiary of the Company, and Shenzhen Chong Sheng Chi Yip Limited* (the "**Shenzhen Chong Sheng**") entered into an acquisition agreement, pursuant to which, among other things, the Group has conditionally agreed to acquire the entire issued share capital in Xiangyin Chong Sheng, at total consideration of RMB100,000,000, to be satisfied by (i) RMB5 million in cash; and (ii) RMB95 million by the issue of the Promissory Note (being the "**Note C**") to Shenzhen Chong Sheng. Xiangyin Chong Sheng principally engaged in the business of design, manufacture and distribution of container houses. The Note C bears an interest at 3.5% per annum for two years and is payable on the maturity date of 20 November 2019. During the year ended 31 December 2018, all outstanding principal amount of the Note C, being RMB95,000,000, has been fully repaid by the Company, and the corresponding outstanding interest was agreed to be waived by both parties.

***Promissory note issued on 15 August 2018 (the "Note D")***

On 15 August 2018, the Company issued the Note D with the principal amount of HK$34,100,000 as part of the consideration for acquisition of the entire interest in Today Bridge and its subsidiaries. The Note D is unsecured, carries interest at 5% per annum and is payable on the maturity date of 14 August 2020. The Company is also entitled to redeem the whole or part of the Note D at any time after the issue date to one day before the maturity date by 7 business days advance notice.

At the end of the reporting period, the Note D with the principal amount of HK$34,100,000 (2018: HK$34,100,000) remained outstanding.

## EVENTS AFTER THE REPORTING PERIOD

As per the Company's announcement dated 2 March 2020, subsequent to the passing of the special resolution in relation to the change of company name by the shareholders of the Company at the EGM convened and held on 13 January 2020, the name of the Company has been changed from "China Agroforestry Low-Carbon Holdings Limited" to "China Bozza Development Holdings Limited", with the dual foreign name in Chinese of the Company changed from "中國農林低碳控股有限公司" to "中國寶沙發展控股有限公司". The stock short name for trading in the Shares on the Stock Exchange will be changed from "CA LOW-CARBON" to "BOZZA DEVELOP" in English and from "中國農林低碳" to "寶沙發展" in Chinese, both with effect from 9:00 a.m. on 5 March 2020. The stock code of the Company on the Stock Exchange will remain as "1069". In view of the change of the name of the Company, the current logo of the Company will no longer be used. The Company will make further announcement(s) if and when a new logo is adopted.

## FINANCIAL REVIEW

### Revenue

During the financial year ended 31 December 2019, the Company recorded revenue of approximately RMB54.2 million, representing an increase of approximately 5.6% as compared to approximately RMB51.4 million for 2018. Such increase was mainly due to an increase of the revenue from the forestry business during the year ended 31 December 2019.

Revenue from the Company's forestry business for the year ended 31 December 2019 was approximately RMB36.8 million (2018: RMB20.5 million), representing an approximately 80% increase as compared to the year ended 31 December 2018. Such increase was due to the Group harvested timber logs of approximately 14,730 cubic metres (2018: 8,075 cubic metres), representing an approximately 82.4% increase as compared to the year ended 31 December 2018.

The Group also received interest income approximately RMB6.3 million (2018: RMB5.7 million) from the money lending business engaged by its wholly-owned subsidiary during the financial year ended 31 December 2019.

Turnover from the Company's container house business for the year ended 31 December 2019 was approximately RMB11.1 million (2018: RMB25.1 million), which accounted for 20.43% of the total revenue.

### Gross Profit

The Group recorded a gross profit approximately RMB34.8 million for the year ended 31 December 2019 (2018: Gross profit approximately RMB28.1 million). Such change was mainly due to the increase in revenue of the forestry business.

### Qualifications and independence of the valuer and forestry specialist consultant

Ascent Partners Valuation Service Limited ("**Ascent Partners**" or the "**Independent Valuer**") is an independent professional qualified valuer appointed by the Company for the purpose of preparing the valuation reports dated 27 April 2020 (the "**Valuation Report**") on the fair value of the forest lands with a total site area of approximately 21,045 Chinese Mu, 9,623 Chinese Mu, 13,219 Chinese Mu, 30,653 Chinese Mu and 42,814 Chinese Mu located in Muma Town of Jiange County of Sichuan Province (the "**Hengchang Forest**"), Zhengxing Town of Jiange County of Sichuan Province (the "**Kunlin Forest**"), Yixing Town of Jiange County of Sichuan Province (the "**Senbo Forest**"), Longyuanzhen, Houshixiang and Dianzixiang Town of Jiange County of Sichuan Province (the "**Ruixiang Forest**") and Kaifeng Town, Yingshui village, Guangping village and Zheba village of Jiange County of Sichuan Province (the "**Wantai Forest**"), the PRC, respectively, together with the **Hengchang Forest** and **Kunlin Forest** and **Senbo Forest** and **Ruixiang Forest** and **Wantai Forest**, the "**Forests**"). The Independent Valuer has extensive experience in performing valuation of businesses, tangible and intangible assets and financial instruments, and has served as the independent valuer for various forestry projects for listed companies on the Stock Exchange.

## Valuation methodology and assumptions

In carrying out the valuation of the Forests, the Independent Valuer considered the following approaches and methodologies:

**Cost Approach** — The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history. Unlike market and income approaches which either incorporate market sentiments or future earnings capacity of an asset as a function to determine its current value, cost approach considers the fundamental cost it takes to form the asset. In the opinion of the Independent Valuer, this method is inapplicable to the analysis of the Forests as there is no convincing association of the market value of the subject asset with its cost.

**Market Approach** — In this approach, the value of an asset is derived by looking at how the market prices similar assets. This approach employs market data either directly from active market, or indirectly through comparable companies or similar transactions to develop a measure of value for the subject assets.

However, as an active market for transactions of biological assets with similar characteristics and conditions such as types, sizes, population, environment, etc. does not exist, the market approach is not employed in the valuation of the Forests.

**Income Approach** — In the income approach, the value of an asset is the present worth of the expected future economic benefits of ownership. The value of the asset to be valued is developed through the application of the discounted cash flow method to devolve the values of expected future income generated by the asset into a present market value.

This Income Approach is considered the most appropriate and adopted by the Independent Valuer for the valuation of the Forests in the absence of an active market. The method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to its business operation.

## Material input, included bases and assumptions used in the valuation

***Key inputs***

The key inputs used in the valuation of the Forests are as follows:

Timber Sale Revenue = Planned Cutting Volume ($m^3$) X Average Selling Price (RMB/$m^3$) X Yielding Rate (%) X Price Growth Factor

The experimental form factor formula originally developed by Professor Lin Changgeng ("**Professor Lin**") of Nanjing Forestry University in 1961, to calculate the standing timber volume was adopted as below:

$$V= F * (H+3) * G$$

where V is standing timber stock volume calculated, F is the experimental form factor, H is the average height of trees, and G is the basal area measured by angle gauge. The values of G and H are collected and derived from the raw data collected on-site by Mr. Peng, while the value of F is retrieved from the ArcGIS, a complete geographical system which integrates hardware, software, and data for capturing, managing, analyzing, and displaying all forms of geographically referenced information and related database.

* for identification purpose only

### *Key assumptions*

The key assumptions made by the Independent Valuer in valuing the Forests are as follows:

a. The Independent Valuer has assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of Jiange Hengchang Low-Carbon Forestry Development Co., Ltd*. (劍閣縣恒昌低碳林業開發有限公司) ("**Jiange Hengchang**"), Jiange Kunlin Linye Company* (劍閣縣坤林林業種植有限公司) ("**Jiange Kunlin**"), Jiange Senbo Linye Company* (劍閣縣森博林業有限公司) ("**Jiange Senbo**"), Jiange Ruixiang Linye Company Ltd.* (劍閣縣瑞祥林業有限公司) ("**Jiange Ruixiang**"), and Jiange Wantai Linye Limited* (劍閣縣萬泰林業有限公司) ("**Jiange Wantai**").

b. The Independent Valuer has not investigated any financial data to determine the earning capacity of the operation in which the assets are used, and assumed that the prospective earnings would provide a reasonable return on the fair market value of the assets.

### *Discount rate*

The income approach is employed, based on the financial projections provided primarily by the Company, to estimate the fair value of the Forests. The fair value of the Forests is developed through the application of the weighted-average-cost-of-capital (WACC) to discount the free cash flows to the firm (FCFFs). The WACC is calculated by taking into account the relative weights of each component of the capital structure. It is computed using the formula below:

$$\text{WACC} = W_e \times R_e + W_d \times R_d \times (1 - t)$$

where:

$R_e$ = *Cost of Equity*
$R_d$ = *Cost of Debt*
$W_e$ = *Weight of Equity Value to Enterprise Value*
$W_d$ = *Weight of Debt Value to Enterprise Value*
$t$ = *Statutory Corporate Tax Rate*

## Work performed by Mr. Peng and the Independent Valuer

### *(A) Work performed by Mr. Peng*

Sampling investigation work by random was done by Mr. Peng on the plantation land in the total of 1,214 sub-compartments being divided in accordance to 《森林資源規劃設計調查主要技術規定》(國家林業局，2003年4月) by using a 1:10000 topographic map. In addition, angle gauge sample plot (角規樣地) approach was adopted to determine the timber volume in each sub-compartment.

Mr. Peng and his two assistants investigated the health status of the trees through visual inspection in the Forests during the fieldwork surveying period. This is a common general practice for determination of the health status of trees in the PRC.

According to the requirements of the sampling survey, non-stratified sampling method was used for this survey. Mr. Peng has adopted a commonly used sampling method as detailed in the Principal Technical Requirements on Forestry Resources Planning and Design Survey, which is a national regulation and guideline issued by the SFA for conducting forestry resources designing, planning, surveying and investigation.

Based on the said guideline for the determination of the numbers of angle gauge survey sample plots required, 4,194 angle gauge survey sample plots were selected randomly and set up according to the Principal Technical Requirements on Forestry Resources Planning and Design Survey. The stock volume in one sub-compartment can be derived by multiplying the stock volume per unit ha to the area of the sub-compartment. Such sample size is sufficient in ascertaining the stock volume of the Forests which enables to draw the conclusions of the Forests according to the abovementioned guideline in the determination of the numbers of angle gauge survey sample plots required in the forests for sampling purpose.

***(i) Hengchang Forest***

The survey of a total of 1,403 hectare (equivalent to 21,045 Chinese Mu) has been completed and all of them belong to the forest lands. The surveying area involves 1 town and 6 administrative villages, which comprises of 6 compartments and 182 sub-compartments.

***(ii) Kunlin Forest***

The survey of a total of 642 hectare (equivalent to 9,623 Chinese Mu) has been completed and all of them belong to the forest lands. The surveying area involves 1 town and 3 administrative villages, which comprises of 3 compartments and 51 sub-compartments.

***(iii) Senbo Forest***

The survey of a total of 881 hectare (equivalent to 13,219 Chinese Mu) has been completed and all of them belong to the forest lands. The surveying area involves 1 town and 4 administrative villages, which comprises of 4 compartments and 194 sub-compartments.

***(iv) Ruixiang Forest***

The survey of a total of 2,044 hectare (equivalent to 30,653 Chinese Mu) has been completed and all of them belong to the forest lands. The surveying area involves 3 towns and 16 administrative villages, which comprises of 78 compartments and 435 sub-compartments.

***(v) Wantai Forest***

The survey of a total of 2,854 hectares (equivalent to 42,814 Chinese Mu) has been completed and all of them belong to the forest lands. The surveying area involves 4 towns and 15 administrative villages, which comprises 352 sub-compartments.

***(B) Work performed by Independent Valuer***

The Independent Valuer has visited the Forests for this fiscal year. They have confirmed with the Company that there is no material change with the stock volume and conditions of the forest plantations. The Independent Valuer has relied on the technical report provided by Mr. Peng as basis for the valuation of the Forests.

## Selling Price

***Hengchang Forest, Kunlin Forest, Senbo Forest, Ruixiang Forest and Wantai Forest***

According to the search of websites in the internet, the tree price in the sales contract is reliable. RMB2,500 per cubic meter is adopted as estimation of the market price of the cypress timber. As the market price is based on the dimension of the tree log rather than the age of the trees, in particular the diameter of the tree log, the weighted average is derived by taking into the account of the diameter at breast height distribution which affects the price of cypress log, and hence the valuations of the Hengchang Forest, Kunlin Forest, Senbo Forest, Ruixiang Forest and Wantai Forest. Accordingly, the age of the trees is not being considered in the valuation of the Hengchang Forest, Kunlin Forest, Senbo Forest, Ruixiang Forest and Wantai Forest.

***Major costs in the cash flow projections***

*(i)* ***Hengchang Forest***

- Timber operational cost rate: (1) RMB0/Chinese Mu for maintenance cost, (2) RMB14.68/$m^3$ for timber logging cost: (3) RMB0/Chinese Mu for road construction and maintenance cost, (4) RMB4.89/$m^3$ for timber transportation cost and (5) RMB3.26/$m^3$ for cleaning cost;

- Corporate tax: 0% (waived); and

- Management & staff cost: RMB438,640 per year

*(ii)* ***Kunlin Forest***

- Timber operational cost rate: (1) RMB0/Chinese Mu for maintenance cost, (2) RMB21.46/$m^3$ for timber logging cost, (3) RMB0/Chinese Mu for road construction and maintenance cost, (4) RMB6.13/$m^3$ for timber transportation cost and (5) RMB6.13/$m^3$ for cleaning cost;

- Corporate tax: 0% (waived); and

- Management & staff cost: RMB200,572 per year

*(iii)* ***Senbo Forest***

- Timber operational cost rate: (1) RMB0/Chinese Mu for maintenance cost, (2) RMB19.97/$m^3$ for timber logging cost, (3) RMB0/Chinese Mu for road construction and maintenance cost, (4) RMB8.41/$m^3$ for timber transportation cost and (5) RMB6.31/$m^3$ for cleaning cost;

- Corporate tax: 0% (waived); and

- Management & staff cost: RMB275,518 per year

*(iv)* ***Ruixiang Forest***

- Timber operational cost rate: (1) RMB0/Chinese Mu for maintenance cost, (2) RMB19.97/$m^3$ for timber logging cost, (3) RMB0/Chinese Mu for road construction and maintenance cost, (4) RMB8.41/$m^3$ for timber transportation cost and (5) RMB6.31/$m^3$ for cleaning cost;

- Corporate tax: 0% (waived); and

- Management & staff cost: RMB638,887 per year

*(v)* ***Wantai Forest***

- Timber operational cost rate: (1) RMB0/Chinese Mu for maintenance cost, (2) RMB19.97 $m^3$ for timber logging cost, (3) RMB0/Chinese Mu for road construction and maintenance cost, (4) RMB8.41/$m^3$ for timber transportation cost and (5) RMB6.31/$m^3$ for cleaning cost.

- Corporate tax: 0% (waived); and

- Management & staff cost: RMB892,353 per year

* *for identification purpose only*

***Expected yield of the biological assets***

***Hengchang Forest, Kunlin Forest, Senbo Forest, Ruixiang Forest and Wantai Forest***

- Yielding rate: 66%
- Cypress tree biological growth rate: 5.43%

## Sensitivity analysis for the fair value

The following sensitivity analysis shows the effect on fair values of the biological assets for unobservable and significant inputs.

***Sensitivity Analysis***

*(i)* ***Hengchang Forest***

Discount rate

| Variance | Discount Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 18.91% | RMB121,906,827 | –18.29% |
| 2% | 17.91% | RMB129,964,085 | –12.89% |
| 1% | 16.91% | RMB139,005,701 | –6.83% |
| 0% | 15.91% | RMB149,202,607 | 0.00% |
| –1% | 14.91% | RMB160,763,238 | 7.75% |
| –2% | 13.91% | RMB173,943,230 | 16.58% |
| –3% | 12.91% | RMB189,057,946 | 26.71% |

Cypress market price

| Variance | Market price per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | RMB2,875 | RMB172,772,382 | 15.80% |
| 10% | RMB2,750 | RMB164,915,791 | 10.53% |
| 5% | RMB2,625 | RMB157,059,199 | 5.27% |
| 0% | RMB2,500 | RMB149,202,607 | 0.00% |
| –5% | RMB2,375 | RMB141,346,016 | –5.27% |
| –10% | RMB2,250 | RMB133,489,424 | –10.53% |
| –15% | RMB2,125 | RMB125,632,833 | –15.80% |

Estimation of cypress volume

| Variance | Volume per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | 279,159 | RMB149,202,607 | 0.00% |
| 10% | 267,022 | RMB149,202,607 | 0.00% |
| 5% | 254,884 | RMB149,202,607 | 0.00% |
| 0% | 242,747 | RMB149,202,607 | 0.00% |
| –5% | 230,610 | RMB149,202,607 | 0.00% |
| –10% | 218,472 | RMB149,169,449 | –0.02% |
| –15% | 206,335 | RMB147,585,471 | –1.08% |

Estimation of cypress growth rate

| Variance | Growth Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 8.43% | RMB149,202,607 | 0.00% |
| 2% | 7.43% | RMB149,202,607 | 0.00% |
| 1% | 6.43% | RMB149,202,607 | 0.00% |
| 0% | 5.43% | RMB149,202,607 | 0.00% |
| –1% | 4.43% | RMB148,586,366 | –0.41% |
| –2% | 3.43% | RMB145,233,767 | –2.66% |
| –3% | 2.43% | RMB141,472,582 | –5.18% |

*(ii)* ***Kunlin Forest***

Discount rate

| Variance | Discount Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 19.72% | RMB45,404,587 | –14.83% |
| 2% | 18.72% | RMB47,826,780 | –10.29% |
| 1% | 17.72% | RMB50,454,487 | –5.36% |
| 0% | 16.72% | RMB53,310,286 | 0.00% |
| –1% | 15.72% | RMB56,419,704 | 5.83% |
| –2% | 14.72% | RMB59,811,650 | 12.20% |
| –3% | 13.72% | RMB63,518,927 | 19.15% |

Cypress market price

| Variance | Market price per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | 2,875 | RMB61,614,519 | 15.58% |
| 10% | 2,750 | RMB58,846,441 | 10.38% |
| 5% | 2,625 | RMB56,078,364 | 5.19% |
| 0% | 2,500 | RMB53,310,286 | 0.00% |
| –5% | 2,375 | RMB50,542,209 | –5.19% |
| –10% | 2,250 | RMB47,774,131 | –10.38% |
| –15% | 2,125 | RMB45,006,054 | –15.58% |

Estimation of cypress volume

| Variance | Volume per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | 73,508 | RMB56,314,859 | 5.64% |
| 10% | 70,312 | RMB55,391,633 | 3.90% |
| 5% | 67,116 | RMB54,439,178 | 2.12% |
| 0% | 63,920 | RMB53,310,286 | 0.00% |
| –5% | 60,724 | RMB52,072,394 | –2.32% |
| –10% | 57,528 | RMB50,722,582 | –4.85% |
| –15% | 54,332 | RMB49,258,873 | –7.60% |

Estimation of cypress growth rate

| Variance | Growth Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 8.43% | RMB59,011,250 | 10.69% |
| 2% | 7.43% | RMB57,064,977 | 7.04% |
| 1% | 6.43% | RMB55,148,552 | 3.45% |
| 0% | 5.43% | RMB53,310,286 | 0.00% |
| –1% | 4.43% | RMB51,508,349 | –3.38% |
| –2% | 3.43% | RMB49,831,048 | –6.53% |
| –3% | 2.43% | RMB48,265,417 | –9.46% |

*(iii)* ***Senbo Forest***

Discount rate

| Variance | Discount Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 19.72% | RMB53,573,304 | –16.57% |
| 2% | 18.72% | RMB56,740,733 | –11.63% |
| 1% | 17.72% | RMB60,267,593 | –6.14% |
| 0% | 16.72% | RMB64,211,729 | 0.00% |
| –1% | 15.72% | RMB68,642,675 | 6.90% |
| –2% | 14.72% | RMB73,644,420 | 14.69% |
| –3% | 13.72% | RMB79,318,913 | 23.53% |

Cypress market price

| Variance | Market price per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | RMB2,875 | RMB73,558,276 | 14.56% |
| 10% | RMB2,750 | RMB70,442,760 | 9.70% |
| 5% | RMB2,625 | RMB67,327,244 | 4.85% |
| 0% | RMB2,500 | RMB64,211,729 | 0.00% |
| –5% | RMB2,375 | RMB61,096,213 | –4.85% |
| –10% | RMB2,250 | RMB57,980,697 | –9.70% |
| –15% | RMB2,125 | RMB54,865,182 | –14.56% |

Estimation of cypress volume

| Variance | Volume per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | 107,504 | RMB64,642,874 | 0.67% |
| 10% | 102,830 | RMB64,642,874 | 0.67% |
| 5% | 98,156 | RMB64,613,994 | 0.63% |
| 0% | 93,482 | RMB64,211,729 | 0.00% |
| –5% | 88,808 | RMB63,662,228 | –0.86% |
| –10% | 84,134 | RMB62,935,110 | –1.99% |
| –15% | 79,460 | RMB62,071,493 | –3.33% |

Estimation of cypress growth rate

| Variance | Growth Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 8.43% | RMB64,642,874 | 0.67% |
| 2% | 7.43% | RMB64,642,874 | 0.67% |
| 1% | 6.43% | RMB64,642,874 | 0.67% |
| 0% | 5.43% | RMB64,211,729 | 0.00% |
| –1% | 4.43% | RMB62,918,301 | –2.01% |
| –2% | 3.43% | RMB61,509,457 | –4.21% |
| –3% | 2.43% | RMB60,010,023 | –6.54% |

*(iv)* ***Ruixiang Forest***

Discount rate

| Variance | Discount Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 19.72% | RMB106,782,642 | –17.71% |
| 2% | 18.72% | RMB113,659,074 | –12.41% |
| 1% | 17.72% | RMB121,280,099 | –6.53% |
| 0% | 16.72% | RMB129,756,002 | 0.00% |
| –1% | 15.72% | RMB139,217,133 | 7.29% |
| –2% | 14.72% | RMB149,818,141 | 15.46% |
| –3% | 13.72% | RMB161,743,188 | 24.65% |

Cypress market price

| Variance | Market price per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | RMB2,875 | RMB149,972,505 | 15.58% |
| 10% | RMB2,750 | RMB143,233,671 | 10.39% |
| 5% | RMB2,625 | RMB136,494,836 | 5.19% |
| 0% | RMB2,500 | RMB129,756,002 | 0.00% |
| –5% | RMB2,375 | RMB123,017,167 | –5.19% |
| –10% | RMB2,250 | RMB116,278,333 | –10.39% |
| –15% | RMB2,125 | RMB109,539,499 | –15.58% |

Estimation of cypress volume

| Variance | Volume per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | 222,280 | RMB132,692,620 | 2.26% |
| 10% | 212,616 | RMB132,161,904 | 1.85% |
| 5% | 202,951 | RMB131,120,705 | 1.05% |
| 0% | 193,287 | RMB129,756,002 | 0.00% |
| –5% | 183,623 | RMB128,080,216 | –1.29% |
| –10% | 173,958 | RMB126,067,770 | –2.84% |
| –15% | 164,294 | RMB123,701,217 | –4.67% |

Estimation of cypress growth rate

| Variance | Growth Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 8.43% | RMB132,692,620 | 2.26% |
| 2% | 7.43% | RMB132,692,620 | 2.26% |
| 1% | 6.43% | RMB132,692,620 | 2.26% |
| 0% | 5.43% | RMB129,756,002 | 0.00% |
| –1% | 4.43% | RMB126,333,119 | –2.64% |
| –2% | 3.43% | RMB122,833,772 | –5.33% |
| –3% | 2.43% | RMB119,329,463 | –8.04% |

*(v)* ***Wantai Forest***

Discount rate

| Variance | Discount Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 19.72% | RMB93,954,462 | –20.41% |
| 2% | 18.72% | RMB101,093,126 | –14.36% |
| 1% | 17.72% | RMB109,074,867 | –7.60% |
| 0% | 16.72% | RMB118,041,570 | 0.00% |
| –1% | 15.72% | RMB128,165,444 | 8.58% |
| –2% | 14.72% | RMB139,656,694 | 18.31% |
| –3% | 13.72% | RMB152,773,393 | 29.42% |

Cypress market price

| Variance | Tree Price | Fair value | % Change |
|---|---|---|---|
| 15% | RMB2,875 | RMB140,297,120 | 18.85% |
| 10% | RMB2,750 | RMB132,878,603 | 12.57% |
| 5% | RMB2,625 | RMB125,460,087 | 6.28% |
| 0% | RMB2,500 | RMB118,041,570 | 0.00% |
| –5% | RMB2,375 | RMB110,623,053 | –6.28% |
| –10% | RMB2,250 | RMB103,204,536 | –12.57% |
| –15% | RMB2,125 | RMB95,786,019 | –18.85% |

Estimation of cypress volume

| Variance | Volume per $m^3$ | Fair value | % Change |
|---|---|---|---|
| 15% | 269,178 | RMB118,041,570 | 0.00% |
| 10% | 259,475 | RMB118,041,570 | 0.00% |
| 5% | 245,771 | RMB118,041,570 | 0.00% |
| 0% | 234,068 | RMB118,041,570 | 0.00% |
| –5% | 222,365 | RMB118,041,570 | 0.00% |
| –10% | 210,661 | RMB117,270,748 | –0.65% |
| –15% | 198,958 | RMB115,800,627 | –1.90% |

Estimation of cypress growth rate

| Variance | Growth Rate | Fair value | % Change |
|---|---|---|---|
| 3% | 8.43% | RMB118,041,570 | 0.00% |
| 2% | 7.43% | RMB118,041,570 | 0.00% |
| 1% | 6.43% | RMB118,041,570 | 0.00% |
| 0% | 5.43% | RMB118,041,570 | 0.00% |
| –1% | 4.43% | RMB116,864,563 | –1.00% |
| –2% | 3.43% | RMB113,954,997 | –3.46% |
| –3% | 2.43% | RMB110,702,836 | –6.22% |

## Administrative Expenses

The administrative expenses decreased by approximately 40.7% from approximately RMB40.1 million for the year ended 31 December 2018 to approximately RMB23.8 million for the year ended 31 December 2019. The decrease in administrative expenses were mainly attributable to the sharply decrease of amortisation expenses and that the depreciation charge of most fully depreciated assets had been recognised in prior year.

## Finance Costs

The finance costs include mainly interests on (i) the promissory notes (being the Note B as stated above) bearing 5% interest rate per annum with the principal amount of HK$23,800,000 issued on 6 June 2017; (ii) the promissory notes (being the Note D as stated above), bearing 5% interest rate per annum with the principal amount of HK$34,100,000 issued on 15 August 2018; and (iii) the corporate bonds with the aggregate principal amounts of HK$276,000,000 bearing interest rates ranged from 4% to 10% per annum.

## Income Tax Expenses/Credit

For the year ended 31 December 2019, the income tax expense was approximately RMB0.2 million (2018: income tax credit of approximately RMB11.9 million), which was attributable to no timing differences on impairment loss are recognised and thereby no deferred tax against profits of the subsidiaries.

## Loss/Profit and Total Comprehensive Income/Expenses Attributable to Owners of the Company

As a result of the above changes, the Company has recorded a loss of approximately RMB340.5 million, representing an increase of approximately 421.8% as compared to a loss of approximately RMB65.3 million for the year ended 31 December 2018. The total comprehensive loss attributable to owners of the Company was approximately RMB348.4 million for the year ended 31 December 2019, which represents an increase of approximately 348.1% compared to the total comprehensive expense approximately RMB77.8 million for the year ended 31 December 2018.

## Basic Loss per Share

Basic loss per share from continuing operations for the financial year ended 31 December 2019 amounted to RMB3.09 cents (2018: RMB0.89 cents), representing an increase of approximately 247.2% as compared to that for the previous financial year.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed a total of 27 employees (57 as at 31 December 2018). Total staff costs for the year under review, including the Directors' remuneration and termination benefits, amounted to approximately RMB10.3 million (2018: approximately RMB9.2 million). The Group's remuneration policies are in line with the prevailing market standards and are determined on the basis of the performance and the level of experience of each individual employee. Other employee benefits include contributions to social insurance scheme.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows, fundraising activities and bank borrowings. As at 31 December 2019, the Group had total assets of approximately RMB588.5 million (2018: RMB889.5 million) and net assets of approximately RMB252 million (2018: RMB601 million). The Group's cash and bank balances as at 31 December 2019 amounted to approximately RMB3.2 million (2018: RMB7.4 million). As at 31 December 2019, there were no unutilised banking facilities (2018: Nil).

## PLEDGE ON ASSETS

During the year ended 31 December 2019, no pledges of the Company's entire equity interest in all subsidiaries.

## COMMITMENTS

Apart from the Proposed Acquisition set out in the above section headed "Future Plans for Material Investments or Capital Assets", the Group had no commitments at the end of the reporting period.

As at 31 December 2018, the Group had the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2018<br>RMB'000 |
|---|---|
| Within one year | 2,273 |
| In the second to fifth year inclusive | 835 |
| | 3,108 |

## CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (2018: Nil).

## FOREIGN EXCHANGE EXPOSURE AND RELATED HEDGES

The Group's transactions are mainly denominated in Hong Kong dollars and RMB, being the functional currencies of relevant group entities. The majority of the Group's cash and bank balances are also denominated in these two currencies. During the financial year ended 31 December 2019, the Group did not experience significant exposure to the exchange rate and interest rate fluctuations. Accordingly, the Group has not implemented any foreign currency hedging policy at the moment. However, the management of the Group will constantly review the economic situation, development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

## PROSPECT AND OUTLOOK

Looking back at the Sino-US trade disputes over the past year, even though China and the US had signed the phase one trade agreement, the outlook for international trade is still clouded by remaining uncertainties. Coupled with the plight brought about by the outbreak of Coronavirus disease 2019 (COVID-19) across the world in 2020, the global economy and consumer sentiment will certainly be affected, and the operating environment will remain difficult.

It is expected that 2020 will be another year filled with uncertainties, as a result of the outbreak of coronavirus disease 2019 (COVID-19), the slowing growth of global economy. Above all, while the various countries and the global population is actively fighting against the COVID-19 epidemic, it is uncertain how it will impact the global economy in the near future. All of these uncertainties have brought and is expected to bring certain level of impact on the markets which the Group operates in. The Group is prepared for any economic pressure that may arise from the aforesaid uncertainties. Besides, the Group believes uncertainties create opportunities — the Group will keep an eye on investment opportunities, including the LOI signed in the second half of 2019 between the potential individual third party and the Company, which have good development and investment potential with the objective of being open-minded about new opportunities for growth and expansion of the Group's business and value creation for the Shareholders as a whole.

## GEARING RATIO

The gearing ratio of the Group, which is calculated as total liabilities divided by total assets of the Group was approximately 57.1% as at 31 December 2019 (31 December 2018: 32.5%).

As at 31 December 2019, promissory notes with the principal amount of HK$57.9 million remained outstanding and the corporate bonds with the principal amount of HK$276 million remained outstanding.

## CAPITAL STRUCTURE

The share capital of the Group comprises only ordinary shares. As at 31 December 2019, the total number of the ordinary shares of the Company in issue was 11,024,220,415 shares (31 December 2018: 11,024,220,415 shares). The total equity attributable to the owners of the Company was approximately RMB252.2 million (31 December 2018: approximately RMB600.6 million).

## UPDATE OF THE PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF HENGFUDELAISI

References are made to the announcements of the Company dated 22 April 2016, 21 June 2016 and 15 July 2016, and the circular of the Company dated 27 June 2016 concerning the acquisition of Shenzhen Heng Fu Delaisi Intelligent Housing Limited* (深圳恒富得萊斯智能房屋有限公司) ("**Hengfudelaisi**"). The Directors considered that the acquisition could provide an opportunity for the Group to diversify its business into the container house business so as to further enhance its revenue sources as well as to bring positive return to the Shareholders. The acquisition required minimal amount of initial cash outlay given substantial amount of the consideration is to be satisfied by the allotment and issue of the consideration shares. In particular, out of the entire consideration of RMB250,000,000, a total sum of RMB210,000,000 would be payable by stage by the Company on a half-yearly basis after Hengfudelaisi has achieved the profit guarantee in a sum which is equal to the amount of the part of the consideration payable; and the vendors have to compensate up to RMB40,000,000 to the Company if the accumulated audited net profit of Hengfudelaisi after taxation during the guaranteed period is less than RMB210,000,000. As such, capital can be preserved for the development of the existing business of the Group.

Reference is made to the Company's interim report 2017, the profit guarantee of RMB24,500,000 for the period from 1 January 2017 to 30 June 2017 was met. The Company has paid the respective vendors RMB7,350,000 by cash and RMB17,150,000 by issuing 62,321,257 shares at the issue price of HK$0.33 per share as partial consideration of the acquisition, in accordance with the terms of the agreement of the acquisition dated 22 April 2016.

Reference is also made to the Company's annual report 2017, the profit guarantee of RMB31,500,000 for the period from 1 July 2017 to 31 December 2017 was not met. As Gorgeous City Investment Limited (the ultimate holding company of Hengfudelaisi) failed to meet 70% of the profit guarantee for the period from 1 July 2017 to 31 December 2017, no consideration or any part thereof was paid to the respective vendors for the period from 1 July 2017 to 31 December 2017 in accordance with the terms of the agreement of the acquisition dated 22 April 2016.

Reference is also made to the Company's announcement dated 17 August 2018, the profit guarantee of RMB38,500,000 for the period from 1 January 2018 to 30 June 2018 was not met. As Gorgeous City Investment Limited failed to meet 70% of the profit guarantee for the period 1 January 2018 to 30 June 2018, no consideration or any part thereof was paid to the respective vendors for the period from 1 January 2018 to 30 June 2018 in accordance with the terms of the agreement of the acquisition dated 22 April 2016.

Reference is also made to the Company's announcement dated 13 March 2019, the profit guarantee of RMB45,500,000 for the period from 1 July 2018 to 31 December 2018 was not met. As Gorgeous City Investment Limited failed to meet 70% of the profit guarantee for the period 1 July 2018 to 31 December 2018, no consideration or any part thereof was paid to the respective vendors for the period from 1 July 2018 to 31 December 2018 in accordance with the terms of the agreement of the acquisition dated 22 April 2016.

In view of the above, subject to the final confirmation of the net profit after taxation of the Hengfu Group during 1 January 2019 to 30 June 2019 through an audit on the financial statements of the Hengfu Group, the Company will inform the respective vendors if they are obliged to compensate the Company in accordance with the terms of the Acquisition Agreement.

## SUMMARY OF FIVE-YEAR FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

### Results

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | **2019**<br>**RMB'000** |
| Revenue | 10,132 | 20,114 | 85,572 | 51,359 | **54,254** |
| Gross profit/(loss) | (3,312) | 14,654 | 67,984 | 28,128 | **34,812** |
| Loss before tax | (61,773) | (52,736) | (18,797) | (77,113) | **(340,292)** |
| Loss attributable to owners of the Company | (59,854) | (52,452) | (7,739) | (65,251) | **(340,484)** |

### Assets and Liabilities

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | **2019**<br>**RMB'000** |
| Non–current assets | 280,553 | 528,340 | 664,183 | 713,910 | **570,969** |
| Current assets | 59,737 | 105,444 | 188,061 | 175,552 | **17,537** |
| Current liabilities | 17,694 | 89,496 | 99,603 | 90,718 | **176,966** |
| Net assets | 198,519 | 311,900 | 386,394 | 600,620 | **252,237** |

## EVENTS SUBSEQUENT TO THE END OF REPORTING PERIOD

In addition to those disclosed in note 47 to the consolidated financial statements, the following event took place subsequent to year ended 31 December 2019.

## BOARD OF DIRECTORS

### Executive Directors

**Mr. Wang Yue ("Mr. Wang")**, aged 37, is an executive Director of the Company. He obtained a bachelor's degree in Business and Economics from the University of Leeds in the United Kingdom in 2004. He has been the general manager of Hunan Kai Xuan Real Estate Development Company Limited*（湖南凱軒房地產開發有限公司）since 2005.

**Professor Fei Phillip ("Professor Fei")**, aged 63, is the chairman, an executive Director and an authorised representative of the Company. He is the professor of International Economic Department of the University of International Relations (國際關係學院), the Peoples Republic of China. Currently he is the council member of the Chinese Overseas Friendship Association (中華海外聯誼會理事) and the China Council for the Promotion of Peaceful National Reunification (中國和平統一促進會). He is also the specially invited committee member of the Hebei Committee for Liaison with Hong Kong, Macao, Taiwan and Overseas Chinese and Foreign Affairs* (河北港澳台僑和外事委員會). He has over 10 years of experience in the international finance, trading business and economic researches.

**Mr. Li Wenjun ("Mr. Li")**, aged 60, is an executive Director and the chief executive officer of the Company. He graduated with a Bachelor's Degree in Chemical Engineering from the Department of Chemical Machinary at South China University of Technology, the People's Republic of China in July 1982. Mr. Li formerly served as (i) an executive director of Kiu Hung International Holdings Limited (Stock Code: 00381) during March 2017 to June 2017; (ii) an executive director of Nine Express Limited (formerly known as Cheung Wo International Holdings Limited) (Stock code: 0009) during October 2015 to December 2016; (iii) the executive director and deputy general manager of China Water Industry Group Limited (Stock code: 1129) during June 2009 to August 2011, shares of the above companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); (iv) the executive director of Chinese Energy Holdings Limited (formerly known as iMerchants Limited) (Stock Code: 8009) during March 2008 to September 2011, shares of which are listed on the GEM of the Stock Exchange. Mr. Li has accumulated over 30 years working experience in chemical engineering, corporate and project management and mergers and acquisitions.

**Mr. Wong Hiu Tung ("Mr. Wong")**, aged 50, is an executive Director of the Company. He has over 15 years of extensive experience in various sectors of the financial industry, including venture capital, direct investment, mergers & acquisitions, capital financing and share placement with focuses on the Mainland China and Hong Kong. Mr. Wong served as executive director and financial controller of Pearl Oriental Oil Limited (stock code: 0632) from March 2013 to August 2017. From 2012 to 2013, he worked for Karrie International Holdings Limited (stock code: 1050) as the chief financial officer. Mr. Wong was an executive director, chief financial officer and an authorized representative of China Billion Resources Limited (stock code: 0274) during the period from September 2009 to January 2011, and was the chief financial officer at China Youzan Limited (stock code: 8083, previously known as SYSCAN Technology Holdings Limited) from 2007 to 2009. Mr. Wong held various positions in WI Harper Group and JP Morgan Chase Bank before. Mr. Wong holds a Bachelor Degree in Laws and a Master Degree of Business Administration (Financial Management) from the University of Exeter, U.K.

* *for identification purpose only*

**Ms. Feng Jiamin ("Ms. Feng")**, aged 34, is an executive Director of the Company. Ms. Feng graduated from University of California, Irvine in 2010 with Master's degree in Business Administration. In 2008, she served as an assistant to Chief Operating Officer for China Region of Pacific Asia Media, participated in the coordination for the organization of Fortune Forum（財富論壇）in China (e.g. Tianjin, Guangzhou), and assisted in the co-ordination and administration for the first World Mind Sports Games. She later worked as an representative in China Region for Global Strategy Group (環球策略集團) and engaged in the preparation of 'Sino-Singapore Tianjin Eco-city' project. She was appointed as vice chairman of supply security and president of China Baosha Group* in 2013, responsible for offshore supply platform project development. Later she served as chief operating officer of China Baosha Group* and was involved in largescale urban comprehensive development such as Jing Kai Meng Du* in Zhengzhou, the coordination of Zhangjiakou super-large photovoltaic power generation project, and the planning for and operation of industrial parks, ecological parks, forestry and other forms of business. Ms. Feng has extensive experience in public relations and investor relations.

**Ms. Lu Wei ("Ms. Lu")**, aged 54, is an executive Director of the Company. Ms. Lu is a legal study graduate student of Southwest University of Political Science & Law and Hunan University in the People's Republic of China. She is the partner, practicing lawyer of Beijing Bomeng Law Firm. She has been worked in administrative management, legal and legal study for several years and has organized several legal events for exchange for the PRC and Hong Kong Macau legal matters. She has engaged to teach the civil and commercial laws at Beijing Dadyutai State Guesthouse at fixed interval. Ms. Lu was the executive director of Shenzhou Space Park Group Limited (listed on main board of the Stock Exchange with stock code: 692) during the period from 12 December 2017 to 22 March 2019. Ms. Lu was the executive vice president of a listed company, Chenzhou City Jingui Silver Industry Co., Ltd (SZ002716) and the executive director of Shenzhen Haobang Investment Company. Ms. Lu possesses extensive experience in internal control management and civil and commercial operation coordination.

## Independent Non-Executive Directors

**Ms. Tian Guangmei ("Ms. Tian")**, aged 58, is an independent non-executive Director. She graduated in accounting at Beijing Trade Finance and Commerce College (北京財貿金融學院) in 1988. Subsequently in 1999, Ms. Tian was awarded the certificate to certify the middle level of specialty in economics — finance by Shenzhen Zhi Cheng Guan Li Office (深圳市職稱管理辦公室). Since 1983, Ms. Tian has held positions in various commercial firms. She is currently the finance manager of Shenzhen Urban Construction Company Limited (深圳市城建集團有限公司).

**Mr. Liang Guoxin ("Mr. Liang")**, aged 57, is an independent non-executive Director. He graduated with a master's degree in the technical economics from the Harbin Institute of Technology in 1992 and graduated with a bachelor's degree in mechanization of harvesting transportation from Jilin Forestry College in 1984. Mr. Liang has been a senior economist certified by Guangdong Provincial Personnel Department (廣東省人事廳) since 2000. Mr. Liang has extensive experiences in project development and project management. He was the management of Shenzhen Yantian District Urban Development Co. (深圳市鹽田區城建開發公司), from 1999 to 2005. Since 2005, he has been the person in charge of the construction of two golf courses, clubhouse and villa projects of Shenzhen OCT East Co., Ltd. (深圳東部華僑城有限公司).

**Mr. Liu Zhaoxiang ("Mr. Liu")**, aged 72, is an independent non-executive Director. He graduated with a Bachelor degree in industrial economics and management at the Economics Management and Journal Union University (經濟管理刊授聯合大學) of the PRC in 1986. Mr. Liu has been a member of the Chinese Institute of Certified Public Accountants since 18 March 2000. He has more than 42 years of experience in accounting and auditing, and worked at various stated-owned enterprises, government departments at municipal level and an accounting firm in Hubei Province of the PRC. From 2005 to 2012, Mr. Liu had been a partner of Wongga Partners Certified Public Accountants (SZ) (深圳皇嘉會計師事務所) and since 2012, he has been a chief auditor of the said accounting firm.

## Senior Management

**Mr. Leung Man Kit ("Mr. Leung")**, aged 43, joined the Group in March 2014 and is the assistant to Chairman, project director, company secretary and an authorised representative of the Company. Mr. Leung is a Fellow Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants as well as a Fellow Member of the Association of International Accountants, Fellow Member of the Taxation Institute of Hong Kong and also an Associate Member of The Society of Chinese Accountants and Auditors. He obtained a Master Degree of Business Administration in Financial Management from The University of Hull in the United Kingdom. Mr. Leung has over 13 years of audit and tax experience from various listed and private companies in Hong Kong and the PRC. He is also experienced in carrying out compliance duties of companies listed on the Stock Exchange. Mr. Leung was an executive director of Modern Beauty Salon Holdings Limited (Stock Code: 919), a company listed on the Main Board of the Stock Exchange, from 15 September 2010 to 13 February 2014.

The Directors are pleased to present this Annual Report together with the audited financial statements of the Group for the financial year ended 31 December 2019.

## PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 46 to the consolidated financial statements. In 2019, the Group has positioned the forestry management business, container houses business, and money lending business as its core businesses. As at 31 December 2019, the long and medium lease forest lands in the PRC owned by the Group were approximately 21,045 Chinese Mu, 9,623 Chinese Mu, 13,219 Chinese Mu, 30,653 Chinese Mu and 42,814 Chinese Mu in the **Hengchang Forest**, the **Kunlin Forest**, the **Senbo Forest**, **Ruixiang Forest** and **Wantai Forest,** respectively.

The Group harvested timber logs of approximately 14,730 cubic metres (2018: 8,075 cubic metres) in the **Forests** during the year ended 31 December 2019. Regarding the container house business, the Group achieved a revenue of RMB11.1 million of the total revenue for the year ended 31 December 2019.

An analysis of the Group's performance for the financial year ended 31 December 2019 by business and geographical segments is set out in Note 7 to the consolidated financial statements of this Annual Report.

## FINANCIAL RESULTS

The performance of the Group for the year ended 31 December 2019 and the Group's financial position at that date are set out in the consolidated financial statements on pages 65 to 156 of this Annual Report.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2019 attributable to the Group's major suppliers and customers are as follows:

| | Percentage of the total purchases/sales accounted for (%) |
|---|---|
| Purchase | |
| — the largest supplier | 29% |
| — the five largest suppliers combined | 90% |
| Sales | |
| — the largest customer | 68% |
| — the five largest customers combined | 85% |

None of the Directors or any of their associates or any Shareholders (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers and suppliers.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the financial year ended 31 December 2019 are set out in Note 16 to the consolidated financial statements of this Annual Report.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 33 to the consolidated financial statements of this Annual Report.

## BORROWINGS

The Group has no secured bank borrowings as at 31 December 2019. Details of promissory notes and corporate bonds payable by the Group are set out in Note 28 and Note 29 respectively.

## GROUP FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the past 5 financial years is set out in the section of "Summary of Five-Year Financial Information" of this Annual Report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to acting in an environmentally responsible manner, the Group strives to ensure minimal environmental impacts by carefully managing our energy consumption, water usage and waste production, such as using LED lamps, recycling and use of eco-friendly stationery, plus a series of measures to save paper and energy. At office level, the Company has implemented green initiatives and encourage staff to join environmental related training, resulted in more efficient use of resources, as well as reduction of waste.

## COMPLIANCE WITH LAWS AND REGULATIONS

There was no material breach of or non-compliance with the applicable laws and regulations such as the Hong Kong Companies Ordinance (Cap. 622), the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and other applicable local laws and regulations in various jurisdictions. The Board pays attention to the Group's policies and practices on compliance with legal and regulatory requirements. External compliance and legal advisers are engaged to ensure transactions and business performed by the Group are within the applicable law framework. Updates on applicable laws, rules and regulations are brought to the attention of relevant employees and operation units from time to time.

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Relationship is the fundamentals of business. The Group fully understand this principal and thus maintain close relationship with the customers to fulfil their immediate and long-term need. The Group encompasses working relationships with suppliers to meet our customer's needs in an effective and efficient manner. The Group work closely and well-communicated to suppliers before the commencement of a project.

## PRINCIPAL RISK AND UNCERTAINTIES FACING THE COMPANY

The following lists out the principal risks and uncertainties facing the company in achieving business objectives and the Group's approach to tackle them.

### Impact of local and international regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities in Mainland China. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

### Currency risk

No revenue derived by the Group in respect of the years ended 31 December 2019 and 2018 were denominated in foreign currencies. Substantially all of the costs incurred for both of the years ended 31 December 2019 and 31 December 2018 were denominated in functional currencies of the group entities.

At 31 December 2019, the Group had some significant monetary assets and liabilities which were denominated in foreign currencies. The Group did not have significant monetary assets and liabilities which were denominated in foreign currencies at 31 December 2018, the Group had no significant monetary assets and liabilities which were denominated in foreign currencies. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

### Interest rate risk

As at 31 December 2019, the Group was also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing floating market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

### Credit risk

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable and other receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings. The Group has concentration of credit risk as 46.2% (2018: 67%) and 97.7% (2018: 100%) of the total trade receivables was due from the Group's largest customer and the five largest customers. The Group's concentration of credit risk by geographical location is mainly in the PRC which accounted for all of the total trade receivables as at 31 December 2019 and 31 December 2018.

### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and other source of funding and considers the risk is minimal.

## FUTURE DEVELOPMENT OF THE BUSINESS

In the coming year, the Group targets to develop an innovative business model and expand the target clients and scope of corporate services. The operation team of the Group is make ongoing efforts to seek appropriate projects for the development of the Group's business, along with continuous investments and expansion of its forestry management and container house business capacity.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial year ended 31 December 2019.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best of the Directors knowledge, at least 25% of the Company's issued shares was held by the public throughout the year ended 31 December 2019.

## RESERVES

Details of movements in the reserves of the Company and the Group during the financial year ended 31 December 2019 are set out in Note 45 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company does not have any reserve available for distribution to owners (2018: nil).

## DIRECTORS

The list of Directors during the year and up to the date of this Annual Report is set out in the "Board Composition" section of this Annual Report. Information about the Board, including board members' appointments and retirements, and their interests in Company's shares, is set out in the "Corporate Governance Report" of this Annual Report.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management as at the date of this Annual Report are set out in the "Biographical Information of Directors and Senior Management" section of this Annual Report.

## DIRECTORS' SERVICE AGREEMENT

None of the Directors, including those retired or to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

## REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the directors and five individuals with highest emoluments are set out in Note 13 to the consolidated financial statements.

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive is taken or deemed to have under such provision of the SFO) or which were required pursuant to Section 352 of the SFO, to be entered in the register of members of the Company, or which were required, pursuant to standard of dealings by Directors as referred to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

***Long position/short position in shares of the Company***

| Name | Capacity | Long position/ short position | Number of ordinary shares | Percentage of issued share capital (Note 1) |
|---|---|---|---|---|
| Liang Guoxin | Beneficial owner | Long Position | 30,000 | 0.01 |
| Tian Guangmei | Beneficial owner | Long Position | 790,000 | 0.01 |
| Wang Yue | Beneficial owner | Long Position | 3,197,023,920 | 28.99 |

Notes:

1. The relevant percentage is calculated by reference to the Shares in issue on 31 December 2019 i.e. 11,024,220,415 shares.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

## ANNUAL DIVIDEND

The Board does not recommend the payment of an annual dividend for the financial year ended 31 December 2019 (2018: nil).

## DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

## CONNECTED TRANSACTIONS

No transactions were entered into by the Group during the year ended 31 December 2019, which constitute connected transactions under the Listing Rules.

## DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the financial year, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or were in existence.

## RETIREMENT BENEFIT SCHEMES

Particulars of the retirement benefit schemes of the Group are set out in Note 35 to the consolidated financial statements.

## CORPORATE GOVERNANCE

The Company's principal corporate governance practices are set out in the Corporate Governance Report of this Annual Report.

## ANNUAL GENERAL MEETING

Notice of annual general meeting of the Company will be published on the website of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") at www.hkex.com.hk and the website of the Company at www.chinacaflc.com, as well as despatched to shareholders of the Company in due course.

## AUDITORS

The consolidated financial statements of the Group for the years ended 31 December 2019 were audited by CCTH CPA Limited, who would retire at the forthcoming AGM of the Company and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the AGM for Shareholders to re-appoint CCTH CPA Limited as auditors of the Company.

On behalf of the Board
**Professor Fei Phillip**
*Chairman and Executive Director*

Shenzhen, the PRC, 28 April 2020

## SCOPE AND REPORTING PERIOD

This is the fourth Environmental, Social, and Governance ("ESG") report by China Bozza Development Holdings Limited ("the Group", formerly known as China Agroforestry Low-Carbon Holdings Limited), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited.

This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the business operations in following operations from 1 January 2019 to 31 December 2019 ("Reporting Period"), unless otherwise stated:

(i) forestry business (i.e. plantation, logging and sale of timber related products) in Sichuan Province, the People's Republic of China ("PRC"), with a total of five forests covered in the report.

The following forest is subtropical humid forest, Asia (continental >20y);

1. Hengchang forest

The following four forests are tropical moist deciduous forests, Asia (continental >20y):

2. Kunlin forest
3. Senbo forest
4. Ruixiang forest
5. Wantai forest

(ii) overall management of the Group's business in the Shenzhen Office

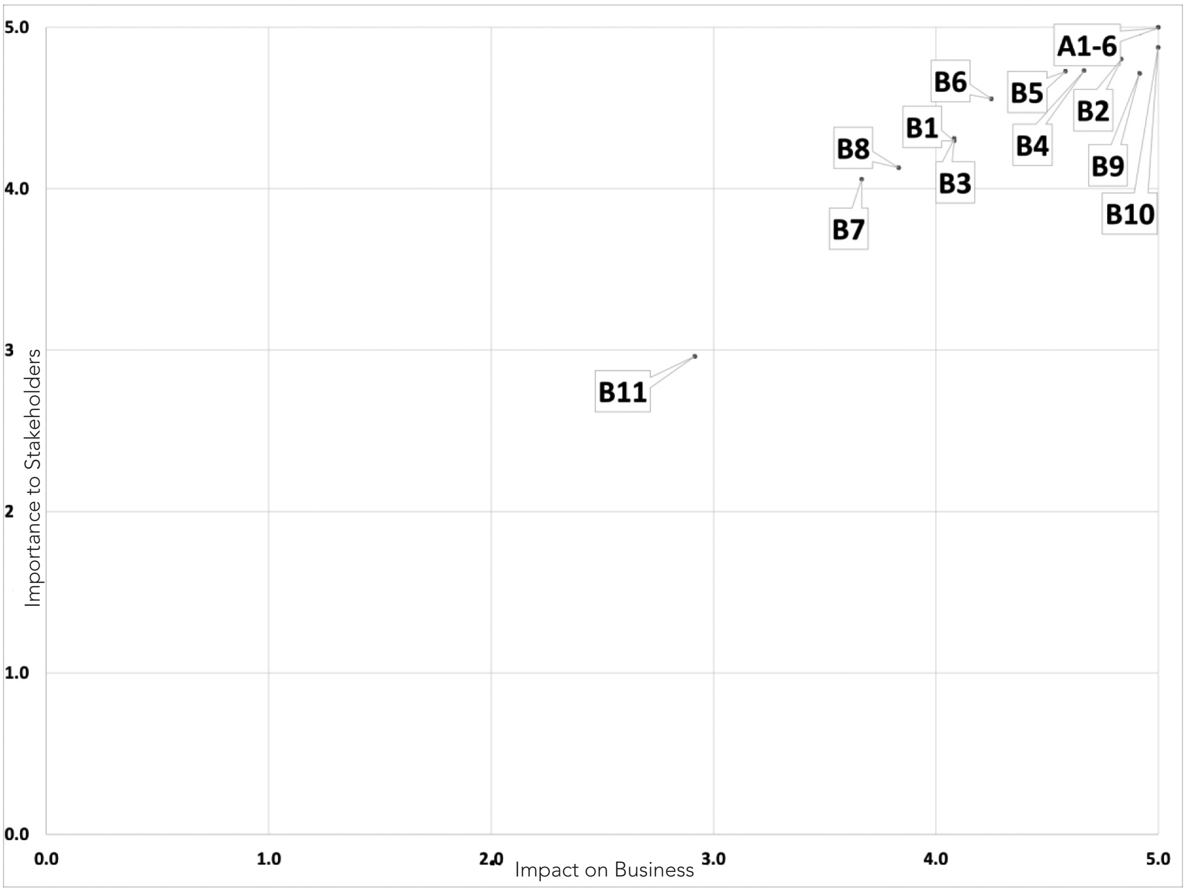
Compared with the last reporting period, the reporting scope has changed as the Group no longer engages in the leases of container houses while continuing its forestry business. The Group's forestry management business owns approximately 78 million $m^2$ of long-lease forest lands in the PRC, during this Reporting Period, including different types of forests in five locations listed above. The Group's Shenzhen Office oversees and manages its business operations. The office was relocated from Futian, Shenzhen to Nanshan, Shenzhen during the Reporting Period and a reduction in the number of employees was observed.

## STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group continues to engage the key stakeholders such as board members, managers, employees, forestry workers, regulators, external experts, and suppliers through daily interactions and working closely with them to discuss and to review areas of attention via various communication channels. For example, the Group arranged regional panel discussions, site visits and survey communication with various stakeholders on a quarterly basis. In addition, senior managers, employees' representatives and shareholders' representatives hold annual and quarterly meetings to understand stakeholder needs and suggestions. During this Reporting Period, the Group has arranged conference calls with board members and employees every half year to understand their needs and concerns.

Through the stakeholder surveys conducted during this Reporting Period, issues of the environmental aspects are found to be of greater importance to stakeholders while issues of the social aspects are considered relatively less material. As shown in the Materiality Matrix, stakeholders and the Group consider all environmental aspects (A1-A6) as equally and extremely important.

## Material Matrix




| | | | | | |
|---|---|---|---|---|---|
| **A.** | **Environmental** | | **B.** | **Social** | |
| | Energy | A1 | | Employment | B1 |
| | Water | A2 | | Occupational Health and Safety | B2 |
| | Emissions | A3 | | Development and Training | B3 |
| | Effluent and Waste | A4 | | Labour Standards | B4 |
| | Other Raw Materials Consumption | A5 | | Supply Chain Management | B5 |
| | Environmental Protection Policies | A6 | | Intellectual Property Rights | B6 |
| | | | | Customer Privacy | B7 |
| | | | | Customer Service | B8 |
| | | | | Product and Service Quality | B9 |
| | | | | Anti-corruption | B10 |
| | | | | Community Investment | B11 |

## STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Please give your suggestions or share your views with us via email at info@chinacaflc.com.

## THE GROUP'S SUSTAINABILITY MISSION AND VISION

The Group ensures strict compliance with any applicable regulations, laws, guidelines, and standards. Furthermore, the Group strives to achieve an optimum balance among maximum profit, responsibility and satisfaction for stakeholders. The Group does not consider ESD as a marketing tool. ESG is not about making donation, nor about issue of corporate social responsibility reports. It should be inherently integrated within daily operation and business decision making. The key message of the Group's sustainability mission is to reinforce the positive correlation between risk management and governance, followed by product innovation and management innovation.

While the establishment of an ESG working group is still under discussion, the Board oversees the ESG management for the Group. In particular, the Board pays close attention to the risks brought about by environmental and climate change, which are critical to the forestry business. With proper risk management, the Group is poised to capture various opportunities brought by environmental change and to make respective policy adjustment accordingly.

In the near future, the Group will continue to implement the principles of low-carbon economy and circular economy in its operations of sustainable farming and forestry business. The Group strives to adopt circular economy principles in forest sector and to capture the full potential of the forests throughout their lifecycle through the sustainable transformation and management of low-yield forests, management of forests for carbon sequestration, utilization of various forest resources, transformation of forest lands, and utilization of residues from land transformation and timber processing as a source of biomass fuel.

### A. Environmental

The Group and its daily operations have little negative impacts on the natural environment. The Group does not generate emissions, wastewater and hazardous waste in its daily operations.

The Group's activities that have caused indirect environmental impacts include: 1) consumption of purchased electricity; 2) processing of freshwater and sewage; and 3) Paper waste disposed of in landfills. Their corresponding emissions during the Reporting Period were calculated and presented in section A1.

The Group strictly abide by applicable laws such as the Environmental Protection Law of the PRC. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste had been identified during the Reporting Period.

## *A1. Emissions*

### *A1.1 Air Emissions*

Both the forestry business and Shenzhen Office have not generated major air emissions. The Group did not own any vehicles during the Reporting Period and all employees are encouraged to take public transport and/or taxis for business trips.

### *A1.2 Greenhouse Gas (GHG) Emissions*

The total amount of GHG, mainly carbon dioxide, methane and nitrous oxide, emissions for the Group during the Reporting Period was 2.74 $tCO_2e$ (2744.77 kg) and the overall intensity was 0.06 tonne $CO_{2eq}$. per employee. The following activities contributed to the indirect GHG emissions reported:

- Energy indirect (scope 2) GHG emissions from purchased electricity; and
- Other indirect (scope 3) GHG emissions from municipal freshwater and sewage processing and waste paper landfilling.

| Activity | GHG emissions (kg $CO_{2eq.}$) | % |
|---|---|---|
| **Scope 1** Direct GHG emission | Not Applicable | |
| **Scope 2** Energy indirect GHG emission | | |
| Purchased electricity | 2,668.49 | 97% |
| **Scope 3** Other indirect GHG emission | | |
| Freshwater and sewage processing | 2.48 | 3% |
| Paper waste disposed of in landfills | 73.80 | |
| **Total GHG** | **2744.77** | **100%** |

Note: Emission factors were made reference to Appendix 27 to the Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise. Emission factor (EF) of 0.61 and 0.54 kg $CO_{2eq}$./kWh was used for purchased electricity in central and southern China, respectively.

Despite the above-mentioned GHG emissions, potential carbon sequestration can be realized through the biomass accumulation in its managed forest. The Intergovernmental Panel on Climate Change's ("IPCC") gain-loss method (from 2006 IPCC Guidelines for National Greenhouse Gas Inventories, Volume 4: Agriculture, Forestry and Other Land Use, Chapter 4 Forest Land) was used to estimate the annual increase in carbon stocks resulting from biomass growth, which was then converted to $CO_2$ sequestration.

Based on forest types and areas, it is estimated that a total of 28,094 tonnes of $CO_2$ was sequestrated from the Group's forest operation during the Reporting Period. It should be noted that the annual carbon sequestration figure only provides a rough estimation as some factors were not taken into account due to lack of data. For instance, the annual carbon stocks loss due to biomass loss, resulting from wood removal, transfer of biomass to dead organic matters and carbon loss to mortality, was not calculated.

*A1.3 Hazardous Waste*

The Group's operations of its forestry business and Shenzhen Office did not generate significant amount of hazardous waste, other than some electronic wastes. Toner cartridges for printers were recycled by the suppliers. The Group did not keep record of the amount of hazardous waste generated due to the minimal volume and its insignificant subsequent impact.

*A1.4 Non-hazardous Waste*

During this Reporting Period, the Group generated an approximate total of 0.065 tonnes of non-hazardous waste, with an overall intensity of 1.33 kg/employee. Non-hazardous waste generated from the Group's business operation mainly included waste office paper and general office waste. An approximate amount of 0.015 tonnes of waste paper was landfilled during the Reporting Period. The amount of general office waste was approximately 0.05 tonnes, which was handled and treated by municipal waste treatment facilities.

*A1.5 Measures to Mitigate Emissions*

With minimal direct emissions generated by its operation, the Group's controlling and mitigation schemes have been focused on encouraging eco-friendly behaviours among staff, such as printing on double sides, reusing printing papers, and sharing office supplies by all employees. Employees are encouraged to use public transport or take hybrid vehicles for business trips.

During the last Reporting Period, business air travel was identified as a substantial source of the Group's GHG emissions. In response, the Group has eliminated all business air travel while maintaining communication with various parties through telecommunication. Employees are encouraged to take buses and trains for short- and medium-distance business trips, if necessary.

*A1.6 Wastes Reduction and Initiatives*

With insignificant amount of waste generated from its business operation, the Group has not set up any waste reduction schemes formally. However, it has promoted environmental awareness through unwritten norms and its sustainable corporate culture. For example, paperless office is highly encouraged among employees, and if possible, double-sided printing is preferred.

### *A2. Use of Resources*

*A2.1 Energy Consumption*

The only kind of energy consumption by the Group during the Reporting Period was electricity. The total electricity consumption was 4,801 Kilowatt-hour (kWh), with an overall intensity of 97.98 kWh per employee.

*A2.2 Water Consumption*

The Group did not consume a significant amount of water for its business activities. Forestry business relies solely on natural precipitation. For the Shenzhen Office, the bill of water use is paid to the management office of the office building. Shenzhen Office has not been involved in the direct management of water resources.

With the removal of the Shenzhen Office to a new location in Shenzhen and reduction in the number of employees, the total water consumption of the Group was estimated at 4 $m^3$ during the Reporting Period. The overall intensity for water consumption was 0.08 $m^3$ per employee. No issues on sourcing water were reported during the Reporting Period.

*A2.3 Energy Use Efficiency Initiatives*

The energy consumption from the Group's business operation is not significant. Its forestry business only consumed a very insignificant amount of electricity for lighting purpose. For Shenzhen Office, electricity was the major type of energy consumed by the Group. Thus, employees are reminded to switch off lights, air conditioners, computers, monitors and equipment before leaving work.

*A2.4 Water Use Efficiency Initiatives*

The Group's business operation did not involve any significant water consumption. Its forestry business has not consumed any processed water and hence no formal water use efficiency initiatives have been established.

Shenzhen Office does not directly control and/or manage water consumption and hence has not put forth any water use efficiency initiatives. Nevertheless, water-saving signs have been put up in the pantry and toilets to remind employees of water conservation. Water faucets with auto-induction feature were installed to save water.

*A2.5 Packaging Material*

The Group's business operation also did not involve any significant use of packaging materials. The packaging material consumption during this Reporting Period was not recorded.

### *A3. The Environment and Natural Resources*

*A3.1 Significant Impacts of Activities on the Environment*

The nature of the Group's business poses limited negative impact on the environment. Instead, proper management of forest resources and use of forest products can contribute to substantial GHG reductions. The forests contain carbon in living trees and plants, organic matter and soil. While forest management activities such as harvesting, thinning, planting, natural decaying, controlling forest fires and insects have impacts on the environment, the continuous growth and regeneration of the forests, as well as the absorption of $CO_2$ and nutrients by other animals and organisms have taken up large amount of carbon from the atmosphere. The Group continuously promotes environmental protection to pose minimal impacts on the surrounding environment and ecosystem.

Resource Conservation

The forestry business continues to adopt sound forest management practices, such as complying with logging requirements, selective logging, and conducting monthly inspection and annual evaluation on the forests. Overall, local government bodies centrally manage the local forestry resource conservation and involve extensively in the Group's logging activities.

The Group adopts selective logging. Formal application, with details such as logging site, tree species, quantity, has to be made to the forestry administration department, if necessary, for issue of logging permit after careful consideration.

The scrutinization and approval criteria are set by the Forest Resources Management Unit and the Forestry Investigation Team. The approval of annual logging activities will take into account of the logging method, forest growth rate and harvesting area will be considered. The Forest Resources Management Unit also control the logging frequency based on the local environment, tree growth cycle and growth rate.

No fertilizers, nor tree growth accelerators have been applied during the Reporting Period. Pest and disease control have been centrally managed by the local forestry management department, which is responsible for the overall arrangement on pest control for all forest areas within the county. Local forestry workers will be employed to carry out integrated pest management when pests are detected. The soil testing has also been conducted regularly to check on soil fertility.

## B. Social

### *1. Employment and labour practices*

*B1. Employment*

The Group stringently complies with national and local laws and regulations concerning employment and labour practices, such as Labour Law of the PRC and Labour Contract Law of the PRC. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare had been identified during the Reporting Period.

Policies on employees' rights and benefits, including public holidays, annual paid leaves, sick leaves, maternity leaves have been formulated and executed per the Labour Law of the PRC, Labour Contract Law of the PRC, and Salary Payment Regulations of the PRC. Employees in the PRC have been provided with social insurance and housing provident fund.

The Group formulates its own reward system with reference to market salary trends. Individual employee's contribution to the Group is also a major consideration in salary adjustment. Overall, there are three types of salary adjustment: regular salary adjustment, seniority salary adjustment, and post salary adjustment. There was no change in its recruitment procedure during this Reporting Period. No major changes have been made to the appraisal, promotion, reward and penalty system. All employees are liable for promotion based on their competence and suitability for specific position. When there is a vacancy, priority is given to internal employees.

Equal opportunity is provided to all employees in terms of promotion, appraisal, training, development and other aspects. Employees are not discriminated against or deprived of opportunities based on gender, nationality, ethnic background, religion, political affiliation, age, marital status, and physical disability.

The Group had a total number of 27 employees as of 31 December 2019. There is a major decrease in the total number of employees compared with that of the last Reporting Period due to the reduced business volume. Whenever applicable, severance pay was made to laid-off employees according to the Labour Law of the PRC.

B2. *Employee Health and Safety*

The Group strives to provide employees with a safe workplace. The Group abides by relevant laws and regulations such as Law of the PRC on the Prevention and Control of Occupational Diseases. The Group provides medical examinations to employees to ensure that they are in good physical and mental health. Employees who are exposed to health hazards in the workplace can report to their department heads and have the right to request for remediation.

Clear instructions and labels on emergency evacuation and fire safety are put up at Shenzhen Office building. Sufficient fire extinguishers are placed in the office area. Fire safety knowledge lectures and fire drills are conducted annually for all office workers.

Warning signs such as "Take Precautions" were put up throughout the forest areas. All contracted loggers have undergone medical examinations to ensure that they are physically fit to perform forestry management tasks. The loggers are all equipped with appropriate protective gears and follow safety guidelines. Designated personnel from forest workstations shall be on site to instruct and supervise all logging activities. When making the inspection tour in the forest, the inspection route shall be planned in advance and be strictly followed. Relevant safety protection is in place to protect the workers' safety.

In addition to the health and safety management for its employees, the Group promotes the importance of forest protection and fire prevention among residents of local communities, jointly with local forest workstations and police stations. The joint promotion aims to arouse the awareness of forest protection among local villagers and to avoid the occurrence of any forest destruction incidents from the root causes.

No work-related fatality or injury cases were reported during the Reporting Period. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to provision of a safe working environment and protection of employees from occupational hazards was identified during the Reporting Period.

B3. *Development and Training*

The Human Resources department manages all employee development and training, including orientation and on-job trainings. General training sessions provided to all newly engaged employees cover topics such as basic information of the Group, personal job duties and other related topics. Based on the Group's developmental needs, professional knowledge training has also been offered to targeted employees, in order to improve collaboration between employees and professional skills.

*B4. Labour Standards*

The Group strictly observes the Labour Law of the PRC, the labour Contract Law of the PRC, the Law on the Protection of Minors in terms of labour practices. Background checks were conducted on new employees and all employees are required to show their original identity cards to prove their legal identities.

In case of any child or forced labour is found, labour contract will be terminated immediately, and the case will be reported to the local legal entity. Depending on the situation, the person(s) involved may be sent to the hospital for medical examination, to ensure that his/her health has not been affected by the work. The Group's top management will also take appropriate disciplinary actions against those who are responsible for the violation and negligence.

During the Reporting Period, no non-compliance concerning labour standards as required by related laws and regulations was recorded, and there was no child nor forced labour in the Group's business operation.

***2. Operating Practices***

*B5. Supply Chain Management*

One supplier in the PRC, responsible for provision of transportation for the forestry business operation, was engaged during the Reporting Period. The Group has standard procedures for engaging suppliers and contractors related to its business operation. Suppliers and contractors are encouraged to maintain a high standard of business ethics and conducts and a satisfactory environmental and social performance.

The Group has signed an agreement with the local authority in Sichuan to set up designated forest workstation to perform forest management activities. The Group conducts an annual assessment on the performance of the contracted forest workstations. The Group will evaluate and adjust the contract fee based on the assessment results.

*B6. Product Responsibility*

Product Labelling, Health and Safety, and Advertising
The Group's business operation did not involve product labelling. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided had been identified during the Reporting Period.

Quality Assurance
Logs harvested from the forests are the major products of the Group. Due to the business nature, no relevant policies on quality assurance and/or complaint handling procedures have been established. The Group does not perform further processing on raw logs harvested. Customers visit our forests and select logs on-site based on their business needs and quality requirements. Customer then arrange for shipment of their selected logs themselves. The Group actively engages with customers during follow-up visits and calls to understand customers' level of satisfaction and to build strong customer relationships.

Customer Data Protection

The Group acknowledges the importance of protecting the privacy and confidentiality of relevant stakeholders and prohibits the use of any personal information of clients by other parties. The Group implements various schemes to prevent data leakage and misuse or abuse of customer sensitive information. For example, anti-virus software and firewall have been installed on office networked servers and have been constantly updated to prevent virus attack and external hacking. File transmission is carried out via internal mailbox to prevent data intruding by hackers. Up-to-date, no leakage of customer information has been reported.

Intellectual Property

The Group's business operation did not involve Intellectual Property rights protection. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to intellectual property rights had been identified during the Reporting Period.

*B7. Anti-corruption*

The Group is committed to managing all businesses without undue influence and has regarded honesty, integrity, and fairness as its core values. All parties shall observe the Law Against Unfair Competition of the PRC, Criminal Law of the PRC, and other laws, regulations and regulatory documents related to commercial bribery.

Upon encounter of any suspicious activities, employees at any level have the responsibility and right to report directly to the top management team of the Group. The Group ensures that no one suffers any detrimental treatment as a result of refusing to accept or offer a bribe or other corrupt activities or because they reported a concern relating to potential acts of bribery or corruption. Upon receipt of any report of suspected corruption, theft, fraud, embezzlement or money laundering, the Group will take immediate actions to investigate the suspected case and try to obtain evidence through different channels, such as internet, phone calls, mails, and personal visits.

No non-compliance with any laws and regulations in relation to corruption, bribery, fraud and money laundering that have a significant impact on the Group had been identified during the Reporting Period.

*B8. Community Investment*

As indicated in the materiality matrix, community investment was regarded as the least material topic in the stakeholder survey. No formal policies on community contribution have been established. During the Reporting Period, the Group has not participated in any community engagement activities.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted all the code provisions (the "**Code Provisions**") contained in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules as the Company's code of corporate governance. Throughout the year ended 31 December 2019, the Company complied with all the Code Provisions contained in the CG Code and, where appropriate, adopted the Recommended Best Practices set out in the CG Code, with the exception of Code Provisions A.1.8 and A.4.1 as addressed below:

1. Pursuant to the Code Provision A.1.8, the Company should arrange appropriate insurance cover in respect of any legal action against its Directors and officers. Up to the date of this report, the Company has not arranged to purchase any Directors and Officers' Liability Insurance, which covers in respect of legal action against the Directors. While the Company is committed to achieving high standards of corporate governance and to complying with the code provisions, the Company decided to delay the compliance with such code provision as the Board is currently considering quotations from different underwriters and will select the Directors and Officer's Liability insurance with the most cost-efficient.

2. Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, none of the non-executive Directors has been appointed for a specific term to allow flexibility and they are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Company's articles of association.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the Code Provisions during the year of 31 December 2019. The key corporate governance principles and practices of the Company are summarised in this report.

## THE BOARD

### Roles and Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its Shareholders.

Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The non-executive Directors (including the independent non-executive Directors) serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group through their contributions in board meetings.

## Board Composition

The Board structure is governed by the Company's articles of association. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

As at the date of this Annual Report, the Board comprises six executive Directors and three independent non-executive Directors as follows:

**Executive Directors:**
Professor Fei Phillip *(Chairman, from 24 July 2019)*
Mr. Wang Yue
Mr. Li Wenjun *(Appointed on 1 July 2019)*
Mr. Wong Hiu Tung *(Appointed on 19 July 2019)*
Ms. Feng Jiamin *(Appointed on 20 August 2019)*
Ms. Lu Wei *(Appointed on 22 August 2019)*

**Independent non-executive Directors:**
Ms. Tian Guangmei
Mr. Liang Guoxin
Mr. Liu Zhaoxiang

The biographical details of the Directors and the relationship among the members of the Board are set out in the "Biographical Information of Directors and Senior Management" on pages 26 to 28 of this Annual Report.

## Appointment, Re-Election and Removal of Directors

On 18 January 2019, Mr. Lei Zuliang resigned as an executive Director, the chairman of the Board, a member of The Nomination Committee and Remuneration Committee of the Company and one of the authorized representatives of the Company with effect from 1 February 2019, due to his early retirement.

As set out in the announcement of the Company dated 18 January 2019, with effect from 1 February 2019, Mr. Wang Yue has been appointed as the chairman of the Board, a member of the Nomination Committee and the Remuneration Committee and an authorised representative of the Company.

On 1 July 2019, Mr. Li Wenjun was appointed as an executive Director.

On 19 July 2019, Mr. Wong Hiu Tung was appointed as an executive Director.

On 24 July 2019, Professor Fei Phillip was appointed as Chairman of the Board and Mr. Wang Yue was step down as Chairman of the Board but Mr. Wang remained as an executive Director.

On 24 July 2019, Mr. Wang Yue was resigned and ceased as a member of the Nomination committee and the Remuneration Committee of the Company and one of the authorised representatives of the Company, Professor Fei was appointed as a member of the Nomination Committee and the Remuneration Committee and an authorised representative of the Company

On 20 August 2019, Ms. Feng Jiamin was appointed as an executive Director.

On 22 August 2019, Ms. Lu Wei was appointed as an executive Director.

On 22 August 2019, Professor Liu Zhikun was resigned as a non-executive Director.

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, none of the non-executive Directors has been appointed for a specific term.

Notwithstanding the aforesaid deviation, one-third of the Directors (including the non-executive Directors and independent non-executive Directors) are subject to retirement by rotation and re-election at each of the Company's annual general meeting and every Director shall be subject to retirement by rotation at least once in every three years in compliance with the Company's articles of association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are in line with the underlying intentions of Code Provision A.4.1 of the CG Code.

During the year ended 31 December 2019, the Board complied at all times with the requirement of the Listing Rules relating to the appointment of at least 3 independent non-executive directors representing at least one-third of the board and at least one of them having appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent.

Mr. Liu Zhaoxiang, as independent non-executive Directors, have the relevant accounting qualifications and experience.

According to the Company's articles of association, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. The Directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last re-election. Pursuant to the Company's articles of association, all Directors are all eligible for re-appointment and three of them shall retire from office at the coming AGM, who shall be eligible for re-election.

The members of the Board have no financial, business, family or other material/relevant relationship with each other.

The Board also takes up the corporate governance functions pursuant to the Code. During the year under review, the work performed by the Board on corporate governance function is summarized as follows:

(a) developed and reviewed policies and practices on corporate governance;

(b) reviewed and monitored the training and continuous professional development of directors and senior management;

(c) reviewed and monitored the policies and practices on compliance with legal and regulatory requirements;

(d) developed, reviewed and monitored the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) reviewed the Company's compliance with the Code and disclosure in the Corporate Governance Report.

## Delegation to Management

Day-to-day operational responsibilities are specifically delegated by the Board to the management under the leadership of the Chief Executive Officer ("**CEO**"). Major matters include implementation of the strategies and decisions approved by the Board and the management assumes full responsibility to the Board for operations of the Group.

## Directors' Participation in Continuous Professional Trainings

Code Provision A.6.5 of the Code provides that all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. All Directors have been required to provide the Company with their training records. During the year under review, the Company organized training courses to the Directors or provided written materials to develop and refresh their professional skills on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. Some Directors participated in continuous professional development by attending other professional training courses or by reading relevant materials in relation to corporate governance matter. The Company has received from the relevant Directors the confirmations on taking continuous professional training course during the year under review as follows:

| | |
|---|---|
| Mr. Wang Yue | Reading material |
| Professor Fei Phillip | Reading material |
| Mr. Li Wenjun | Reading material and attended a training session on director's duties |
| Ms. Tian Guangmei | Reading material |
| Mr. Liang Guoxin | Reading material |
| Mr. Liu Zhaoxiang | Reading material |
| Mr. Wong Hui Tung | Reading material and attended a training session on director's duties |
| Ms. Feng Jiamin | Reading material and attended a training session on director's duties |
| Ms. Lu Wei | Reading material and attended a training session on director's duties |

## Code Provision A.6.7

Code Provision A.6.7 provides that Independent Non-executive Directors and other Non-executive Directors of the Company should attend general meetings and develop a balanced understanding of the views of the shareholders.

Mr. Liang Guoxin, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 4 June 2019 due to personal reason.

Mr. Liu Zhaoxiang, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 4 June 2019 due to personal reason.

## Independence of non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent parties. The Company considers all of the non-executive Directors is independent. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence.

## Induction and Development

Every newly appointed Director will be given an induction training so as to ensure that he has appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

The Company also provides regular updates on the business development of the Group. The Directors are regularly briefed on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, the Company has been encouraging the Directors to enroll in professional development courses and seminars relating to the Listing Rules, companies ordinance and corporate governance practices organised by professional bodies or chambers in Hong Kong. All the Directors are requested to provide the Company with their respective training records pursuant to the CG Code.

All Directors have participated in appropriate continuous professional development to refresh their knowledge and skills during the year. Such professional development was completed either by way of attending briefings, conference, forum, courses and seminars and self-reading which are relevant to the business or directors duties.

## Board Meetings

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. Notice of at least 14 days is given of a regular Board meeting to give all Directors an opportunity to attend.

The following table is the attendance record of each of the Directors at the meetings held during the year of 2019:

| Directors | Attendance/Number of meetings |
|---|---|
| **Executive Directors** | |
| Mr. Lei Zuliang *(Resigned with effect from 1 February 2019)* | 1/37 |
| Mr. Wang Yue *(Chairman until 24 July 2019)* | 37/37 |
| Professor Fei Phillip *(Chairman from 24 July 2019)* | 31/37 |
| Mr. Li Wenjun *(Appointed on 1 July 2019)* | 27/37 |
| Mr. Wong Hiu Tung *(Appointed on 19 July 2019)* | 24/37 |
| Ms. Feng Jamin *(Appointed on 20 August 2019)* | 16/37 |
| Ms. Lu Wei *(Appointed on 22 August 2019)* | 15/37 |
| **Non-executive Director** | |
| Professor Liu Zhikun *(Resigned with effect from 22 August 2019)* | 5/37 |
| **Independent non-executive Directors** | |
| Ms. Tian Guangmei | 34/37 |
| Mr. Liang Guoxin | 32/37 |
| Mr. Liu Zhaoxiang | 33/37 |

Board papers are circulated at least 3 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company.

All Directors have full and timely access to all relevant information as well as the advice and service of the Company Secretary to ensure Board procedures and all applicable rules and regulations are followed.

The Company Secretary prepare minutes and keeps records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable time on reasonable notice by any Director.

## DELEGATION BY THE BOARD

### Board Committees

The Board has delegated authority to 3 standing Committees with specific roles and responsibilities. While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association).

The Board delegates the responsibility of implementing its strategies and the day-to-day activities to the management of the Company with department heads responsible for different aspects of the business. Management of the Company is required to present an annual budget and any proposal for major investments and changes in business strategies for the Board's approval.

The Board has established the following committees with defined terms of reference, which are on no less exacting terms than those set out in the Code:

- Remuneration Committee
- Nomination Committee
- Audit Committee

Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. Minutes of all committees meetings are circulated to their members. To further reinforce independence and effectiveness, all Audit Committee members are INEDs, and the Nomination and Remuneration Committees have been structured with a majority of INEDs as members.

## Nomination Committee

The Company established a nomination committee in September 2009 with written terms of reference (updated and revised on 18 January 2019) in compliance with the Code Provisions. The principal duties of the nomination committee are to identify and nominate suitable candidates for the appointment of the Directors and make recommendations to the Board on succession planning for the Directors. As at the date of this Annual Report, the nomination committee comprised one executive Director, namely Professor Fei Phillip and two independent non-executive Directors namely Mr. Liu Zhaoxiang and Mr. Liang Guoxin. Mr. Liu Zhaoxiang has been appointed as the chairman of the nomination committee.

The following table is the attendance record of each of the nomination committee members at the meetings held during the financial year ended 31 December 2019:

| | Attendance/Number of meetings |
|---|---|
| Mr. Liu Zhaoxiang *(Chairman)* | 6/6 |
| Mr. Liang Guoxin | 6/6 |
| Mr. Lei Zuliang *(Resigned with effect from 1 February 2019)* | 1/6 |
| Mr. Wang Yue *(Appointed on 1 February 2019 and resigned with effect from 24 July 2019)* | 6/6 |
| Professor Fei Phillip *(Appointed on 24 July 2019)* | 0/6 |

During the year under review, the Nomination Committee met once.

The work performed by the Nomination Committee during the year under review is summarized as follows:

a. reviewed the structure, size and composition of the Board;

b. discussed the maximum term of office for INEDs;

c. assessed the independence of INEDs;

d. considered the re-appointment of Mr. Liang Guoxin and Mr. Liu Zhaoxiang and made recommendations to the Board; and

e. considered the resignation of Mr. Lei Zuliang, Mr. Wang Yue and the appointments of Professor Fei Phillip as a chairman of the board and made recommendations to the board.

f. consider the appointment of Mr. Li Wanjun, Mr. Wong Hiu Tung, Ms. Lu Wei and Ms. Feng Jiamin as an executive directors.

g. reference is made to the announcement of the Company dated 18 January 2019, the terms of reference for the Nomination committee was updated and revised.

### Remuneration Committee

The Company established a remuneration committee in September 2009 with written terms of reference (updated and revised on 18 January 2019) in compliance with the Code Provisions. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. The remuneration committee comprises one executive Director, namely, Professor Fei Phillip and two independent non-executive Directors, namely Mr. Liu Zhaoxing and Mr. Liang Guoxin. Mr. Liang Guoxin has been appointed as the chairman of the remuneration committee.

The following table is the attendance record of each of the remuneration committee members at the meetings held during the financial year ended 31 December 2019:

| | Attendance/Number of meetings |
|---|---|
| Mr. Liang Guoxin *(Chairman)* | 6/6 |
| Mr. Liu Zhaoxiang | 6/6 |
| Mr. Lei Zuliang *(Resigned with effect from 1 February 2019)* | 1/6 |
| Mr. Wang Yue *(Appointed on 1 February 2019 and resigned with effect from 24 July 2019)* | 6/6 |
| Professor Fei Phillip *(Appointed on 24 July 2019)* | 0/6 |

During the year under review, the Remuneration Committee met once.

The work performed by the Remuneration Committee during the year under review is summarized as follows:

a. reviewed remuneration policy, organizational structure and human resources deployment;

b. consulted the Board Chairman about remuneration proposals for other Executive Directors;

c. approved the remuneration package of Directors and Management;

d. reviewed performance and remuneration of Executive Directors and senior management for the year under review; and

e. reviewed the compensation and benefits for directors and senior management for the year under review.

f. consider the appointment of Mr. Li Wanjun, Mr. Wong Hiu Tung, Ms. Lu Wei and Ms. Feng Jiamin as an executive directors.

g. reference is made to the announcement of the Company dated 18 January 2019, the terms of reference for the Remuneration Committee was updated and revised.

## Audit Committee

The Company established an audit committee in September 2009 with written terms of reference (updated and revised on 18 January 2019) in compliance with Rules 3.21 to 3.23 of the Listing Rules, which were reviewed from time to time by the Board to keep them in line with the most up-to-date requirements. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control system of our Group. As at the date of this report, the audit committee has three members comprising our three independent non-executive Directors, namely Ms. Tian Guangmei, Mr. Liang Guoxin and Mr. Liu Zhaoxiang. Ms. Tian Guangmei has been appointed as the chairman of the audit committee.

The audit committee reviews the interim and annual reports before submission to the Board. The audit committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The audit committee has reviewed the accounting principles and practices adopted by the Company, the annual results of the Group during the year ended 31 December 2019 as well as auditing, internal control and financial reporting matters, including the consolidated financial statements for the year ended 31 December 2019. The audit committee is of the view that the Group's consolidated financial statements for the year under review are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

The audit committee met two times during the reviewed period, and the attendance records of individual committee members are set out below:

| | Attendance/Number of meetings |
|---|---|
| Ms. Tian Guangmei *(Chairman)* | 2/2 |
| Mr. Liang Guoxin | 2/2 |
| Mr. Liu Zhaoxiang | 2/2 |

The work performed by the Audit Committee during the year under review is summarized as follows:

a. approved the remuneration and terms of engagement of CCTH as the external auditor of the Company;

b. reviewed the external auditor's independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

c. reviewed the audit planning for the annual results circulated to them;

d. reviewed and considered the proposal of payment of final dividends for the year ended 31 December 2018 and the interim dividend proposal for the six months ended 30 June 2019 and made recommendations to the Board;

e. reviewed and discussed the financial results of the Group for the year ended 31 December 2018 and the first quarter ended 31 March 2019;

f. reviewed and discussed the interim results for the six months ended 30 June 2019, including the interim results announcement and interim report, and made recommendations to the Board;

g. reviewed the interim and annual financial statements before submission to the Board; and

h. reviewed the audit programme of the internal audit function and risk management systems.

i. reference is made to the announcement of the Company dated 18 January 2019, the terms of reference for the Audit Committee was updated and revised.

The Audit Committee had reviewed and approved the Group's annual results for the year under review prior to their approval by the Board.

## COMPANY SECRETARY

As set out in the announcement of the Company dated 26 April 2019, Mr. Ding Liang resigned as a joint company secretary of the Company with effect from 1 May 2019 due to his personal work arrangement. Following Mr. Ding Liang's resignation, Mr. Leung remains in office and acts as the sole company secretary of the Company.

The company secretary reported to the Chairman on Board governance matters, and are responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management.

The Company Secretary's biographies is set out in the Board of Directors and senior management section of this Annual Report. In compliance with Rule 3.29 of the Listing Rules, Mr. Leung Man Kit ("**Mr. Leung**") has undertaken no less than 15 hours of relevant professional training during the financial year ended 31 December 2019.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. Details of the remuneration committee and other relevant information are set out in the section of Remuneration Committee of this Annual Report.

The remuneration paid or payable to nine directors and senior management by band for the year under review is set out below:

| Remuneration bands (HK$) | Number of persons |
|---|---|
| HK$Nil to HK$1,000,000 | 9 |
| HK$1,000,001 to HK$2,000,000 | – |
| Over HK$2,000,000 | – |

Further particulars regarding Director's remuneration and the five highest paid employees are set out in Notes 13(a) and 13(b) to the financial statements, respectively.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors for the year ended 31 December 2019.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board acknowledges its responsibility for the preparation of the consolidated financial statements which give a true and fair view of the state of affairs, results, and cash flow of the Group for the year. The consolidated financial statements set out on pages 65 to 156 were prepared on a historical cost basis. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. In preparing the consolidated financial statements for the year ended 31 December 2019, the Board:

(a) adopted HKFRSs, which conform to the International Financial Reporting Standards in all material respects;

(b) selected suitable accounting policies and applied them consistently;

(c) made prudent and reasonable judgments and estimates; and

(d) ensured that the financial statements were prepared on a historical cost basis.

For the year ended 31 December 2019, the remuneration paid to the auditors in respect of audit services amounted to RMB931,000 and non-audit service assignment (agreed-upon procedures regarding interim financial information for the six months ended 30 June 2019 and certain professional services) amounted to RMB286,000.

The reporting responsibilities of the Company's auditor, CCTH CPA Limited, are set out in the Independent Auditors' Report on pages 63 to 64.

### Internal Controls and Risk Management

The Board has conducted a review of the effectiveness of the internal control system of the Company and its subsidiaries.

The Board is responsible for maintaining a sound and effective system of internal controls in the Group and for reviewing its effectiveness through the Audit Committee. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud.

The Board has delegated to executive management the design, implementation and ongoing assessment of such systems of internal controls, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis.

Based on the results of evaluations and representations made by the senior management, the Audit Committee is satisfied that:

- The Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness. The Board is also responsible for establishing and maintaining appropriate and effective risk management and internal control systems. The established systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

- During the year under review, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering financial, operational, compliance and risk management aspects of the Group. The systems were considered effective and adequate.

- The Group adopts a complete process style of risk management in a functional bottom up manner, including risk identification, assessment, evaluation and treatment. The functional areas across the Group provide input of risks with treatments, which are appraised and maintained. The risk management system, as well as the internal control system, are continuous, proactive and systematic processes.

- The internal audit function of the Group is governed by an appointed professional. With the appointment of Chief Audit Executive, the effectiveness of the risk management and internal control systems is reviewed by conducting internal audit assignments. Recommendations for major observations of control weaknesses from the audits will be provided, so as to resolve material internal control defects.

- Regarding the handling and dissemination of inside information, the Group has practice policy in place.

## EXTRACTS OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by CCTH CPA Limited, the Group's auditors, regarding the consolidated financial statements of the Group for the year ended 31 December 2019:

### Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for disclaimer of opinion

***Going concern***

As disclosed in note 2 to the consolidated financial statements, the current liabilities of the Group at 31 December 2019 exceeds the Group's current assets at that date by approximately RMB159,429,000 and the Group incurred a net loss of approximately RMB340,484,000 for the year ended 31 December 2019. The consolidated financial statements have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the measures to be undertaken by the Group. In view of the extent of the material uncertainties relating to the results of those measures to be undertaken by the Group which might cast a significant doubt on the Group's ability to continue as a going concern, we have disclaimed our audit opinion on the consolidated financial statements.

## OUR VIEW

### Impairment loss recognised in respect of trade, other loan and interest receivables

As at 31 December 2019, the Group had trade receivables from a customer of forestry business of approximately RMB57.3 million, of which RMB20.5 million was outstanding from December 2018 and was past due over 360 days, and no settlement was received by the Group up to the date of the approval of the audited annual result. Management reviewed the recoverability of the receivables from this customer and is of the view that having considered the financial position of the customer, the credit quality of the customer deteriorated and hence, the Group fully impaired the amounts of these trade receivables.

The Group also had trade receivables relating to container houses business of approximately RMB11.2 million and made impairment loss of RMB4.2 million against these trade receivables based on the expected credit loss assessment performed by management of the Group.

The Group had other receivables as at 31 December 2019 which represented proceeds receivable from disposal of subsidiaries in prior year of approximately RMB93 million, of which RMB40 million and RMB53 million were due on 14 June 2019 and 14 December 2019 respectively. No settlement of the proceeds receivable were received by the Group up to the date of the approval of the audited annual result. As the proceeds receivable have been overdue for a long period of time, management of the Group is of the view that it is unlikely the proceeds receivable would be settled by the relevant purchaser. Accordingly, impairment loss amounted to RMB93 million was made against the other receivables which was charged to profit or loss in respect of the current year.

The Group had outstanding loans receivable with the carrying amount of RMB130.8 million as at 31 December 2019. These loans, with the principal amount of RMB123 million together with interest thereon, normally had term of one to two years and were secured by machineries, inventories and properties situated in PRC. Interests were paid by the borrowers when such interests were due for payment. However, the loan principals were not repaid but only extended at expiration. In view of the uncertainty of the financial position of the borrowers, management of the Group considers that extension of loans indefinitely casted doubts on the loan recoverability. Coupled with the possibility of continuous deterioration of the quality of secured assets and the doubt of the enforceability of seizing the secured assets when necessary, management of the Group is of the view that recoverability of the loans receivable is uncertain, accordingly considers it appropriate to make impairment loss amounted to RMB126.9 million (excluding realignment of the exchange differences) against the loans receivable, which was charged to profit or loss in respect of the current year. Nevertheless, management of the Group will make every effort to recover the loans receivable due in the foreseeable future.

For details on the allowance for trade, other loan and interest receivables of approximately RMB281.4 million for the financial year ended 31 December 2019, please refer to "Notes to Consolidated Financial Statements" of the 2019 Annual Report.

After the debt collection procedure performed by the management of each subsidiary of the Group (the "**Management**") and discuss with the Directors, the Group recognised the impairment loss in profit or loss approximately RMB281.4 million.

The Impairment Loss is based on expected credit loss model and the accounting policy, key assumptions and inputs which are stated in Notes to Consolidated Financial Statements which are set out in the Annual Report of 2019. The Management performed the expected credit loss model by assessing the past due aging analysis, each debtor's changes in business, financial or economic conditions and changes in the expected performance and behaviour of each debtor. Also, the Management performed debt collection procedure to minimise the Impairment Loss, which includes (i) closely monitoring the progress of repayment by following up on the overdue debts by way of telephone every month; (ii) sending quarterly statement to the customers to remind them of the outstanding balances status; and (iii) discussing with its legal advisors to issue demand letters to customers with long overdue amounts. After their assessment, the Management passed the Impairment Loss result to the Directors for their final review. The Directors further assessed the material Impairment Loss and discussed with the Management to understand the difficulty of debt collection or the reason of impairment. The Directors are of the view that the difficulty of debt collection in relation to the Impairment Loss are caused by (i) the deterioration of financial and repayment ability of the debtors as some of our customers have gone bankrupt due to the economic downturn; and (ii) the Group is unable to contact some of the customers to recover the debts. After final assessment, the Directors confirmed the amount of Impairment Loss and make the Impairment Loss in the consolidated financial statements.

## Net loss on change in fair value of plantation forest assets

For the year ended 31 December 2019, the fair value of the Group's plantation forest assets decreased by approximately RMB50.9 million which was based on the fair value's valuation of the plantation forest assets conducted by the professional valuer engaged by the Group. During the current year, management of the Group conducted a review of the future logging activities in view of the continuous increase in market supply of logging products, which resulted in slightly slow down of the production volume of the Group's logging operations during the near future years and prolong of the period of logging activities. This change in future logging activities, taking consideration of the discount factor effect of time value of money, led to the decrease in fair value o f the Group's plantation forest assets by approximately RMB50.9 million, which was charged to profit or loss in respect of the current year.

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost of capital and the risks associated with reach class of capital. The Group will balance its overall capital structure through the raising of new debts and/or the repayment of existing debts. The Directors are considering to take the following actions to address the audit qualifications surrounding the Company will continue to explore further funding sources by continuing to approach banks, financial institutions and potential investors to raise additional capital by way of debt or equity fund-raising to reinforce the Company's financial position.

## SHAREHOLDER RELATIONS

### Shareholder Engagement and Communication

The Board gives high priority to balanced, clear, and transparent communications which allow Shareholders and investors to understand the Group's prospects and the market environment in which it operates. The Company engages with Shareholders and investors in a number of different ways to help ensure that their views and concerns are understood and addressed in a constructive way.

***(a) Convening a Extraordinary General Meeting on Requisition by Shareholders***

Shareholders shall have the right to request the Board to convene an extraordinary general meeting ("**EGM**") of the Company. Two or more Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company which carries the right of voting at the general meeting of the Company may send a written request to the Board of the Company to request for a EGM. The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

***(b) Putting Forward Proposals at General Meetings***

A shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the principal place of business address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

***(c) Making Enquiry to the Board***

Shareholders may send written enquiries, either by post or by email, together with his/her contact details, such as postal address, email or fax, addressing to the principal place of business address of the Company at the following address or facsimile number or via the website of the Company:

Address: Rooms 1002–1003, 10/F, Great Eagle Centre
23 Harbour Road, Wanchai, Hong Kong

Website: www.chinacaflc.com

All enquiries shall be collected by the Company Secretary who shall report to the Executive Directors periodically on the enquiries collected. The Executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Company Secretary will collect the answers for the Executive Directors' review and approval. The Company Secretary shall then be authorised by the Executive Directors to reply all enquiries in writing.

## INVESTOR RELATION

### Constitutional Documents

There was no change to the Company's Memorandum and Articles of Association during the financial year ended 31 December 2019. A copy of the Memorandum and Articles of Association is posted on the websites of the Company and the Stock Exchange.

## CHANGES AFTER CLOSURE OF THE FINANCIAL YEAR

This Annual Report takes into account the changes that have occurred since the end of the financial year ended 31 December 2019 to the date of approval of this Annual Report.

On behalf of the Board
**Professor Fei Phillip**
*Chairman and Executive Director*

Shenzhen, the PRC, 28 April 2020

CCTH CPA LIMITED
中正天恆會計師有限公司

TO THE SHAREHOLDERS OF
CHINA BOZZA DEVELOPMENT HOLDINGS LIMITED
中國寶沙發展控股有限公司
(Formerly known as China Agroforestry Low-Carbon Holdings Limited 中國農林低碳控股有限公司)
*(incorporated in the Cayman Islands with limited liability)*

## DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China Bozza Development Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 65 to 156, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR DISCLAIMER OF OPINION

### Going concern

As disclosed in note 2 to the consolidated financial statements, the current liabilities of the Group at 31 December 2019 exceed the Group's current assets at that date by approximately RMB159,429,000 and the Group incurred net loss of approximately RMB340,484,000 for the year ended 31 December 2019.

The consolidated financial statements have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the measures to be undertaken by the Group. In view of the extent of the material uncertainties relating to the results of those measures to be undertaken by the Group which might cast a significant doubt on the Group's ability to continue as a going concern, we have disclaimed our audit opinion on the consolidated financial statements.

Should the going concern assumption be inappropriate, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments have not been reflected in the consolidated financial statements.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

**CCTH CPA Limited**
*Certified Public Accountants*
Hong Kong, 28 April 2020

**Ng Kam Fai**
Practising Certificate Number: P06573

Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza,
1 Science Museum Road, Tsim Sha Tsui,
Kowloon, Hong Kong

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2019*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Revenue | 6 | **54,254** | 51,359 |
| Cost of sales and services | | **(19,442)** | (23,231) |
| Gross profit | | **34,812** | 28,128 |
| Investment and other income | 8 | **2,443** | 2,466 |
| Other losses, net | 9 | **(330,515)** | (39,098) |
| Selling and distribution expenses | | **(196)** | (122) |
| Administrative expenses | | **(23,794)** | (40,098) |
| Finance costs | 10 | **(23,042)** | (28,389) |
| Loss before tax | | **(340,292)** | (77,113) |
| Income tax (expense)/credit | 11 | **(192)** | 11,862 |
| Loss for the year | 12 | **(340,484)** | (65,251) |
| **Other comprehensive expense** | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Exchange differences on translation of financial statements of foreign operations | | **(7,899)** | (12,471) |
| Reclassification adjustments relating to foreign operations disposed | | **–** | (29) |
| Other comprehensive expense for the year | | **(7,899)** | (12,500) |
| Total comprehensive expense for the year | | **(348,383)** | (77,751) |
| Loss for the year attributable to owners of the Company | | **(340,484)** | (65,251) |
| Total comprehensive expense for the year attributable to owners of the Company | | **(348,383)** | (77,751) |
| | | **RMB cent** | RMB cent |
| Loss per share | 15 | | |
| Basic | | **(3.09)** | (0.89) |
| Diluted | | **N/A** | N/A |

# Consolidated Statement of Financial Position

*As at 31 December 2019*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 16 | **1,011** | 1,017 |
| Right-of-use assets | 17 | **55,208** | – |
| Prepaid land lease payments | 18 | **–** | 48,291 |
| Plantation forest assets | 19 | **514,500** | 574,400 |
| Loans receivable | 20 | **–** | 89,952 |
| Goodwill | 21 | **–** | – |
| Other intangible assets | 22 | **–** | – |
| Deferred tax assets | 32 | **250** | 250 |
| | | **570,969** | 713,910 |
| Current assets | | | |
| Inventories | 23 | **1,190** | 1,096 |
| Trade and other receivables | 24 | **8,457** | 126,889 |
| Loans receivable | 20 | **–** | 34,083 |
| Deposits and prepayments | 25 | **4,709** | 4,459 |
| Prepaid land lease payments | 18 | **–** | 1,463 |
| Income tax recoverable | | **–** | 175 |
| Bank balances and cash | 26 | **3,181** | 7,387 |
| | | **17,537** | 175,552 |
| Current liabilities | | | |
| Trade and other payables | 27 | **22,904** | 21,176 |
| Promissory notes payable | 28 | **52,567** | 21,872 |
| Corporate bonds payable | 29 | **98,015** | 47,670 |
| Lease liabilities | 30 | **3,214** | – |
| Contingent consideration payable | 31 | **–** | – |
| Income tax payable | | **266** | – |
| | | **176,966** | 90,718 |
| Net current (liabilities)/assets | | **(159,429)** | 84,834 |
| Total assets less current liabilities | | **411,540** | 798,744 |

# Consolidated Statement of Financial Position (continued)

*As at 31 December 2019*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Promissory notes payable | 28 | **–** | 23,783 |
| Corporate bonds payable | 29 | **155,568** | 174,341 |
| Lease liabilities | 30 | **3,735** | – |
| | | **159,303** | 198,124 |
| Net assets | | **252,237** | 600,620 |
| Capital and reserves | | | |
| Share capital | 33 | **19,016** | 19,016 |
| Reserves | | **233,221** | 581,604 |
| Total equity | | **252,237** | 600,620 |

The consolidated financial statements on pages 65 to 156 were approved and authorised for issue by the board of directors on 28 April 2020 and are signed on its behalf by:

**Wang Yue**
*Director*

**Professor Fei Phillip**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2019*

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Share option reserve RMB'000 (Note 34) | Translation reserve RMB'000 | Other reserves RMB'000 (Note) | Accumulated losses RMB'000 | Total RMB'000 |
| At 1 January 2018 | 7,501 | 527,074 | 5,476 | 6,433 | 18,038 | (178,128) | 386,394 |
| Loss for the year | – | – | – | – | – | (65,251) | (65,251) |
| Other comprehensive expense for the year | – | – | – | (12,500) | – | – | (12,500) |
| Total comprehensive expenses for the year | – | – | – | (12,500) | – | (65,251) | (77,751) |
| Share options lapsed during the year | – | – | (5,476) | – | – | 5,476 | – |
| Issue of shares upon rights issue | 11,515 | 287,871 | – | – | – | – | 299,386 |
| Share issue expenses | – | (7,409) | – | – | – | – | (7,409) |
| At 31 December 2018 and 1 January 2019 | 19,016 | 807,536 | – | (6,067) | 18,038 | (237,903) | 600,620 |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **(340,484)** | **(340,484)** |
| Other comprehensive expense for the year | **–** | **–** | **–** | **(7,899)** | **–** | **–** | **(7,899)** |
| Total comprehensive expenses for the year | **–** | **–** | **–** | **(7,899)** | **–** | **(340,484)** | **(348,383)** |
| At 31 December 2019 | **19,016** | **807,536** | **–** | **(13,966)** | **18,038** | **(578,387)** | **252,237** |

Note:

Other reserves at 31 December 2019 and 31 December 2018 comprise the following:

— Merger reserve arising from common control combination for entity acquired in December 2010;

— Surplus from the share capital of the subsidiaries, acquired pursuant to the group reorganisation over acquisition consideration; and

— Difference between the nominal value of the shares of a subsidiary, acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2019*

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the year | | **(340,484)** | (65,251) |
| Adjustments for: | | | |
| Income tax expense/(credit) recognised in profit or loss | | **192** | (11,862) |
| Finance costs | | **23,042** | 28,389 |
| Net loss on change in fair value less costs to sell of plantation forest assets | | **50,874** | 5,905 |
| Depreciation of property, plant and equipment | | **219** | 6,645 |
| Depreciation of right-of-use assets | | **3,269** | – |
| Amortisation of prepaid land lease payments | | **–** | 1,035 |
| Amortisation of other intangible assets | | **4** | 12,876 |
| Harvested timber transferred from plantation forest assets to cost of inventories sold | | **9,026** | 5,849 |
| Impairment losses recognised in respect of: | | | |
| — other receivables | | **93,000** | – |
| — trade receivables | | **61,550** | – |
| — other intangible assets | | **–** | 34,327 |
| — loans receivable | | **126,907** | 1,514 |
| Bank interest income | | **(3)** | (17) |
| Gain on disposal of right-of-use assets | | **(14)** | – |
| Gain on disposal of subsidiaries | 38 | **–** | (16,192) |
| Loss on disposal of property, plant and equipment | | **13** | 43 |
| Loss on disposal of other intangible assets | | **78** | – |
| Loss on early repayment of promissory notes | | **–** | 14,501 |
| Net exchange gains | | **–** | (3,590) |
| Operating cash flows before movements in working capital | | **27,673** | 14,172 |
| Increase in inventories | | **(94)** | (1,096) |
| Increase in loans receivable | | **(2,307)** | (48,499) |
| (Increase)/decrease in trade and other receivables | | **(35,162)** | 90,202 |
| Increase in deposits and prepayments | | **(201)** | (44) |
| Increase/(decrease) in trade and other payables | | **115** | (55,231) |
| Cash used in operations | | **(9,976)** | (496) |
| Income taxes refunded/(paid) | | **248** | (4,090) |
| **Net cash used in operating activities** | | **(9,728)** | (4,586) |

# Consolidated Statement of Cash Flows (continued)

*For the year ended 31 December 2019*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(246)** | (981) |
| Additions to plantation forest assets | | **–** | (332) |
| Proceeds on disposal of property, plant and equipment | | **155** | – |
| Acquisition of subsidiaries | 37 | **371** | (115,397) |
| Disposal of subsidiaries | 38 | **–** | (543) |
| Interests received | | **3** | 17 |
| **Net cash generated from/(used in) investing activities** | | **283** | (117,236) |
| **Financing activities** | | | |
| Interest paid | 39 | **(11,057)** | (14,255) |
| Proceeds from issue of shares, net of issue expenses | | **–** | 292,709 |
| Proceeds from issue of corporate bonds, net of issue expenses | 39 | **28,958** | – |
| Repayment of promissory notes | 39 | **–** | (171,879) |
| Repayment of corporate bonds | 39 | **(8,890)** | – |
| Payment of lease liabilities | 39 | **(1,883)** | – |
| **Net cash generated from financing activities** | | **7,128** | 106,575 |
| **Net decrease in cash and cash equivalents** | | **(2,317)** | (15,247) |
| **Cash and cash equivalents at beginning of the year** | | **7,387** | 22,323 |
| Effect of foreign exchange rate changes | | **(1,889)** | 311 |
| **Cash and cash equivalents at end of the year, represented by:** | | | |
| Bank balances and cash | | **3,181** | 7,387 |

## 1. GENERAL INFORMATION

China Bozza Development Holdings Limited (the "**Company**") is a public limited company incorporated in the Cayman Islands. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company changed its English name from "China Agroforestry Low-Carbon Holdings Limited" to "China Bozza Development Holdings Limited" and its Chinese name from "中國農林低碳控股有限公司" to "中國寶沙發展控股有限公司", both of which are effective from 5 March 2020.

The address of the registered office and principal place of business are Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Rooms 1002–1003, 10th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong respectively. The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in forestry management, provision of services in relation to management, leasing, sale and installation of container houses, money lending and investment holding.

The Company's functional currency is Hong Kong dollars ("**HK$**") while that for the major subsidiaries in Mainland China (the "**PRC**") is Renminbi ("**RMB**"). As the operations of the Group are mainly carried out in the PRC, the directors of the Company consider it appropriate to present the consolidated financial statements in RMB.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Notwithstanding that the current liabilities of the Group at 31 December 2019 exceed the Group's current assets at that date by RMB159,429,000, which includes the promissory notes payable and the corporate bonds payable amounted to RMB52,567,000 and RMB98,015,000 respectively, the directors considered it appropriate for the preparation of the consolidated financial statements on a going concern basis after taking into account of the following circumstances and measures to be implemented:

(i) Pursuant to the terms of the promissory notes, the Company is entitled, at its sole discretion, to extend the maturity date of the promissory notes for a further two years.

(ii) Management of the Group will closely monitor the financial position of the Group and the directors of the Company will make every effort (a) to secure funds as necessary to finance the business operations of the Group for the foreseeable future; and (b) to negotiate with the holders of the promissory notes payable and corporate bonds payable for the extension of repayments of these notes and bonds to a date when the Group has adequate working capital to serve the repayments.

Under these circumstances, the directors of the Company are of the opinion that the Group is able to operate as a going concern for the foreseeable future. No adjustments have been made in the consolidated financial statements in the events that the Group is unable to operate as a going concern.

## 3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### New and amended HKFRSs adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2019:

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendment to HKFRSs | Annual Improvements 2015–2017 cycle |

Other than as explained below regarding the impact of HKFRS 16 "Leases", the application of other new and amended standards effective in respect of the current year had no material impact on the Group's financial position and financial performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**") and the related interpretations.

***Definition of a lease***

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)-Int 4 "Determining whether an arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

***As a lessee***

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities. Any difference of the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by lease basis, to the extent relevant to the respective lease contract;

(i) Relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

## 3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### HKFRS 16 Leases (Continued)

***As a lessee (Continued)***

(ii) Elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends 12 months of the date of initial application;

(iii) Excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iv) Applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in PRC was determined on a portfolio basis; and

(v) Use hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.45%.

| | At 1 January 2019 RMB'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 3,108 |
| Less: Recognition exemption — short term leases | (1,351) |
| Gross operating lease obligations at 1 January 2019 | 1,757 |
| Discounting | (91) |
| Lease liabilities as at 1 January 2019 | 1,666 |
| Analysed as: | |
| Current | 1,290 |
| Non-current | 376 |
| | 1,666 |

## 3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### HKFRS 16 Leases (Continued)

***As a lessee (Continued)***

(a) The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

| | At 1 January 2019 RMB'000 |
|---|---|
| **Assets** | |
| Increase in right-of-use assets | 51,420 |
| Decrease in prepaid land lease payments | (49,754) |
| Increase in total assets | 1,666 |
| **Liabilities** | |
| Increase in trade and other payables | 1,290 |
| Increase in lease liabilities | 376 |
| Increase in total liabilities | 1,666 |

(b) Amounts recognised in the consolidated statement of financial position and consolidated statement of profit or loss

| | Right-of-use assets RMB'000 | Lease liabilities and other payables RMB'000 |
|---|---|---|
| As at 1 January 2019 | 51,420 | 1,666 |
| Additions | 8,130 | 8,130 |
| Interest charge | – | 122 |
| Payments | – | (1,883) |
| Depreciation charge | (3,269) | – |
| Disposals | (1,159) | – |
| Derecognition upon disposal of right-of-use assets | – | (1,172) |
| Exchange realignment | 86 | 86 |
| As at 31 December 2019 | 55,208 | 6,949 |

## 3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New Standards and interpretations not yet adopted

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 17 | Insurance Contract[1] |
| Amendments to HKFRS 3 | Definition of a Business[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sales or Contribution of Assets between an Investor and its Associate or Joint Ventures[3] |
| Amendments to HKFRS 1 and HKAS 8 | Definition of Material[4] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[4] |

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all the new and amendments to HKFRSs that are not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group are set out below:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

— has power over the investee;

— is exposed, or has rights, to variable returns from its involvement with the investee; and

— has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date when the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income/expenses are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income/expenses of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

***Changes in the Group's ownership interests in existing subsidiaries***

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income/expenses in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9, when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

— deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

— liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

— assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKFRS 9, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

### Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Revenue recognition

***Revenue from contracts with customers***

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

***Revenue from contracts with customers (Continued)***

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

***Contracts with multiple performance obligations (including allocation of transaction price)***

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance, obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

*Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation*

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases

***Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)***

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

***The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)***

*Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to leases of offices that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

*Right-of-use assets*

The cost of right-of-use asset includes:

— the amount of the initial measurement of the lease liability;

— any lease payments made at or before the commencement date, less any lease incentives received;

— any initial direct costs incurred by the Group; and

— an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

***The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)***

*Right-of-use assets (Continued)*

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

*Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments includes:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

***The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)***

*Lease liabilities (Continued)*

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

***The Group as a lessee (prior to 1 January 2019)***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

***The Group as a lessor***

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight line basis over the terms of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and such costs are recognised as an expense on a straight line basis.

Rental income which is derived from the Group's ordinary course of business are presented as revenue.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, and a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

### Share-based payment transactions

***Share-based payment transactions of the Company***

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred and deducted from accumulated losses.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

***Deferred tax***

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arises from the initial recognition (other than a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Plantation forest assets

Plantation forest assets predominately consist of standing trees in a forest on which the Group undertakes agricultural activities to transform the standing trees into agricultural produce for sale. The forest establishment and maintenance expenses are charged to profit or loss in the period in which they are incurred.

Plantation forest assets are stated at fair value less costs to sell at the end of each reporting period and the gain or loss arising from the changes in the fair value less costs to sell of the plantation forest assets is recognised in profit or loss in the period in which it arises.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Plantation forest assets (Continued)

If an active market exists for standing trees, reference to the distribution of the forest area by age-class, land tenure, forest health, expected growth and yield of the tree crops are adopted for determining the fair value of these assets. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values or as determined by independent professional valuers.

At the time the tree is harvested, the agricultural produce is measured at its fair value less costs to sell at the point of harvest. It is taken out of the plantation forest assets (non-current assets) and accounted for under inventories (current assets).

### Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Intangible assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of assets, are recognised in profit or loss when the asset is derecognised.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment losses on tangible and intangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which is derived from the Group's ordinary course of business are presented as revenue.

***Financial assets***

*Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"). except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

*Impairment of financial assets*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including loans receivable, trade and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than one year past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurs. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the below basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans receivables are assessed for expected credit losses on an individual basis);

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

(v) Measurement and recognition of ECL (Continued)

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities (including trade and other payables, promissory notes payable and corporate bonds payable) are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Critical judgments in applying accounting policies (Continued)

***Approval of logging permits for the plantation forest assets***

The PRC government strictly implements a quota system for the quantities of forest wood to be logged annually and accordingly, such limited quota is competed vigorously among the numerous forestry operators. Without the approved logging permits, the Group will not be able to start operations for revenue generation in the forestry segment.

Up to the date of approval of the consolidated financial statements, the permits for logging of the Group's plantation forest assets onwards have not been granted by the PRC government authorities. In the opinion of the directors of the Company, the absence of the logging permits does not impair the value of the forest assets to the Group as the Group has legally obtained ownership title to such assets, is qualified to make the relevant application of the logging permits which is expected to be granted by the PRC government shortly after application.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***(a) Fair value of plantation forest assets***

The Group's plantation forest assets are stated at fair value less costs to sell. In determining the fair value of the plantation forest assets, the net present value approach has been adopted which requires a number of key assumptions and estimates to be made such as the successful application of logging permits, discount rate, log price, harvest profile, plantation costs, growth, harvesting and establishment. Any change in the estimates may affect the fair value of the plantation forest assets significantly. Management reviews the assumptions and estimates periodically to identify any significant change in the fair value less costs to sell of the plantation forest assets. The carrying amount of the Group's plantation forest assets as at 31 December 2019 is approximately RMB514,500,000 (2018: RMB574,400,000).

***(b) Impairment of property, plant and equipment and right-of-use assets/prepaid lease payments***

Management of the Group determines on a regular basis whether the property, plant and equipment and right-of-use assets/prepaid lease payments are impaired. Impairment losses for property, plant and equipment and right-of-use assets/prepaid lease payments are recognised when the carrying amounts of each of the assets exceed their respective recoverable amounts, which are determined based on higher of fair value less costs of disposal and value in use. The value in use calculations require the use of estimates such as the future revenue and discount rates. As at 31 December 2019, the carrying amount of property, plant and equipment is approximately RMB1,011,000 (2018: RMB1,017,000) and the carrying amount of right-of-use assets is RMB55,208,000 (2018: prepaid lease payments of RMB49,754,000). No impairment loss of property, plant and equipment and right-of-use assets/prepaid land lease payments was recognised in respect of both of the years presented.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

***(c) Depreciation of property, plant and equipment***

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account their estimated residual values. The determination of the useful lives involves management's estimation. The Group assesses annually the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation charges for the future years.

***(d) Amortisation of intangible assets***

Intangible assets are amortised on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives involves management's estimation. The Group assesses annually the useful lives of the intangible assets and if the expectation differs from the original estimate, each a difference may impact the amortisation charges for the future years.

***(e) Impairment of receivables***

The Group applies the simplified approach to provide for expected credit loss in respect of loan receivables and trade and other receivables. The provision rates are based on groupings of various debtors that have similar loss patterns and the Group's historical default rates (taking into consideration forward-looking information that is receivable and supportable available without undue costs or effort). At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, the Group's receivables with significant balances and credit impaired are assessed for expected credit loss individually. The provision for expected credit loss is sensitive to changes in estimates.

The Group uses three categories for financial assets including trade and other receivables, deposits and loan receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings, where possible.

The information about the expected credit loss and the Group's receivables are disclosed in notes 20 and 24.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

***(f) Impairment of other tangible and intangible assets (other than goodwill)***

If circumstances indicate that the carrying amount of tangible and intangible assets may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised to reduce the carrying amounts to their recoverable amounts. The recoverable amount is the higher of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant estimates and judgements relating to level of future income and operating costs. Changes in these estimates could have significant impact on the carrying amounts of these assets and could result in additional impairment change or reversal of impairment, if any, in future periods. No impairment loss was recognised on intangible assets in profit or loss in respect of the year ended 31 December 2019. For the prior year ended 31 December 2018, impairment loss amounted to RMB34,327,000 was recognised in profit or loss on intangible assets in respect of that year.

***(g) Fair value measurements of financial liabilities***

Some of the Group's financial liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of the financial liabilities. Notes 43(c) provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value.

## 6. REVENUE

An analysis of the Group's revenue is as follows:

| | Total | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Revenue from sales of goods | **36,826** | 20,509 |
| Sales and installation of container houses | **7,564** | 7,766 |
| Income from provision of services | **3,083** | 10,627 |
| Rental income from container houses | **438** | 6,738 |
| Interest income from money lending business | **6,343** | 5,719 |
| | **54,254** | 51,359 |

Revenue from sales of goods and sales and installation of container houses is recognised at a point in time when the control of the goods and container houses are transferred to customers.

Revenue from provision of services in relation to management and leasing of container houses is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

## 7. SEGMENT INFORMATION

Information reported to the chairman of the board (being the chief executive decision maker) for the purposes of resource allocation and assessment of segment performance focuses on the types of goods and services delivered.

The Group's reportable operating segments are analysed as follows:

Continuing operations:

(i) Forestry Business — plantation, logging and sale of timber related products.

(ii) Container Houses Business — provision of services in relation to management, leasing, sale and installation of container houses and related business.

(iii) Money Lending Business — provision of money lending services.

Information regarding the above segments for the years ended 31 December 2019 and 2018 is presented below.

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

**For the year ended 31 December 2019**

| | Forestry Business RMB'000 | Container Houses Business RMB'000 | Money Lending Business RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Segment revenue | **36,826** | **11,085** | **6,343** | **54,254** |
| Segment loss | **(83,901)*** | **(4,628)#** | **(122,739)^** | **(211,268)** |
| Bank interest income | | | | **3** |
| Other unallocated income | | | | **2,440** |
| Impairment loss on other receivables | | | | **(93,000)** |
| Other unallocated expenses | | | | **(15,425)** |
| Finance costs | | | | **(23,042)** |
| Loss before tax | | | | **(340,292)** |
| Income tax expense | | | | **(192)** |
| Loss for the year | | | | **(340,484)** |

## 7. SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

For the year ended 31 December 2018

| | Forestry Business RMB'000 | Container Houses Business RMB'000 | Money Lending Business RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Segment revenue | 20,509 | 25,131 | 5,719 | 51,359 |
| Segment profit (loss) | 6,321* | (48,421)# | 2,301^ | (39,799) |
| Bank interest income | | | | 17 |
| Other unallocated income | | | | 2,449 |
| Gain on disposal of subsidiaries | | | | 16,192 |
| Loss on early redemption on promissory notes | | | | (14,501) |
| Other unallocated expenses | | | | (13,082) |
| Finance costs | | | | (28,389) |
| Loss before tax | | | | (77,113) |
| Income tax credit | | | | 11,862 |
| Loss for the year | | | | (65,251) |

| | | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| * | Segment profit of Forestry Business before change in fair value less costs to sell of plantation forest assets and impairment | **24,308** | 12,226 |
| | Net loss on change in fair value less costs to sell of plantation forest assets | **(50,874)** | (5,905) |
| | Impairment loss on trade receivables | **(57,335)** | – |
| | Segment (loss)/profit of Forestry Business | **(83,901)** | 6,321 |
| # | Segment loss of Container Houses Business before amortisation and impairment | **(413)** | (1,218) |
| | Amortisation of other intangible assets | **–** | (12,876) |
| | Impairment on goodwill and other intangible assets | **–** | (34,327) |
| | Impairment loss on trade receivables | **(4,215)** | – |
| | Segment loss of Container Houses Business | **(4,628)** | (48,421) |
| ^ | Segment profit of Money Lending Business before impairment | **4,168** | 3,815 |
| | Impairment loss on loans receivable | **(126,907)** | (1,514) |
| | Segment (loss)/profit of Money Lending Business | **(122,739)** | 2,301 |

## 7. SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2018: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represent the profit/loss earned from each segment without allocation of central administrative costs including directors' salaries and other corporate administrative costs, bank interest and sundry income, gain on disposal of subsidiaries, impairment loss on other receivables, loss on early repayment of promissory notes and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

### Segment assets and liabilities

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Segment assets | | |
| Forestry Business | 564,846 | 645,658 |
| Container Houses Business | 9,144 | 14,577 |
| Money Lending Business | 252 | 124,510 |
| Total segment assets | 574,242 | 784,745 |
| Unallocated assets | 14,264 | 104,717 |
| Consolidated assets | 588,506 | 889,462 |

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Segment liabilities | | |
| Forestry Business | 6,243 | 3,302 |
| Container Houses Business | 3,630 | 5,015 |
| Money Lending Business | 509 | 87 |
| Total segment liabilities | 10,382 | 8,404 |
| Unallocated liabilities | 325,887 | 280,438 |
| Consolidated liabilities | 336,269 | 288,842 |

## 7. SEGMENT INFORMATION (Continued)

### Segment assets and liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

— all assets are allocated to operating segments other than bank balances and cash and other assets for corporate use including certain property, plant and equipment, other receivables and deposits and prepayments. Assets used jointly by segments are allocated on the basis of the revenue earned by individual segments; and

— all liabilities are allocated to operating segments other than promissory notes payable, corporate bonds payable, contingent consideration payable, income tax payable, deferred tax liabilities and certain other payables. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

### Other segment information

**For the year ended 31 December 2019**

| | Forestry Business RMB'000 | Container Houses Business RMB'000 | Money Lending Business RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Amounts included in the measure of segment loss/profit or segment assets** | | | | | |
| Additions to non-current assets (Note) | – | 159 | – | 87 | 246 |
| Depreciation of property, plant and equipment | – | 155 | 3 | 61 | 219 |
| Depreciation of right-of-use assets | 1,564 | – | 507 | 1,198 | 3,269 |
| Amortisation of other intangible assets | – | – | – | 4 | 4 |
| Loss on disposal of property, plant and equipment | – | 13 | – | – | 13 |
| Loss on disposal of other intangible assets | – | – | – | 78 | 78 |
| Gain on disposal of right-of-use assets | – | – | (14) | – | (14) |
| Net loss on change in fair value less costs to sell of plantation forest assets | 50,874 | – | – | – | 50,874 |
| Impairment losses recognised in respect of: | | | | | |
| — trade receivables | 57,335 | 4,215 | – | – | 61,550 |
| — other receivables | – | – | – | 93,000 | 93,000 |
| — loans receivable | – | – | 126,907 | – | 126,907 |
| — other intangible assets | – | – | – | – | – |

## 7. SEGMENT INFORMATION (Continued)

### Other segment information (Continued)

For the year ended 31 December 2018

| | Forestry Business RMB'000 | Container Houses Business RMB'000 | Money Lending Business RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Amounts included in the measure of segment loss/profit or segment assets** | | | | | |
| Additions to non-current assets (Note) | 115,454 | 975 | – | 6 | 116,435 |
| Depreciation of property, plant and equipment | 3 | 6,639 | 2 | 1 | 6,645 |
| Amortisation of prepaid land lease payments | 1,035 | – | – | – | 1,035 |
| Amortisation of other intangible assets | – | 12,876 | – | – | 12,876 |
| Loss on disposal of property, plant and equipment | – | 43 | – | – | 43 |
| Net loss on change in fair value less costs to sell of plantation forest assets | 5,905 | – | – | – | 5,905 |
| Impairment losses recognised in respect of: | | | | | |
| — trade receivables | – | – | – | – | – |
| — other receivables | – | – | – | – | – |
| — loans receivable | – | – | 1,514 | – | 1,514 |
| — other intangible assets | – | 34,327 | – | – | 34,327 |

Note: The additions to non-current assets exclude the financial assets.

### Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers as below:

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| PRC | **47,911** | 45,640 |
| Hong Kong | **6,343** | 5,719 |
| | **54,254** | 51,359 |

Information about the Group's assets and liabilities based on the geographical location of the assets is not presented as the Group's assets and liabilities (excluding loans receivable) are substantially located in the PRC.

## 7. SEGMENT INFORMATION (Continued)

### Information about major customers

Revenue from individual customers contributing over 10% of the revenue of the Group is as follows:

| | Revenue generated from | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Customer A | Forestry Business | **36,826** | 20,509 |
| Customer B | Container Houses Business | **N/A** | 9,682 |

The revenue from the Customer B for the year ended 31 December 2019 did not contribute over 10% of the Group's total revenue for that year.

## 8. INVESTMENT AND OTHER INCOME

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Bank interest income | **3** | 17 |
| Sundry income | **2,440** | 2,449 |
| | **2,443** | 2,466 |

## 9. OTHER LOSSES, NET

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Impairment losses recognised in respect of: | | |
| — trade receivables | **(61,550)** | – |
| — other receivables | **(93,000)** | – |
| — loans receivable | **(126,907)** | (1,514) |
| — other intangible assets | **–** | (34,327) |
| Net loss on change in fair value less costs to sell of plantation forest assets | **(50,874)** | (5,905) |
| Loss on disposal of other intangible assets | **(78)** | – |
| Loss on disposal of property, plant and equipment | **(13)** | (43) |
| Loss on early repayment of promissory notes | **–** | (14,501) |
| Exchange gains, net | **1,893** | 1,000 |
| Gain on disposal of subsidiaries | **–** | 16,192 |
| Gain on disposal of right-of-use assets | **14** | – |
| Other losses, net | **(330,515)** | (39,098) |

## 10. FINANCE COSTS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Interest on: | | |
| — promissory notes payable | **6,777** | 12,119 |
| — corporate bonds payable | **16,143** | 16,270 |
| — lease liabilities | **122** | – |
| | **23,042** | 28,389 |

## 11. INCOME TAX EXPENSE/(CREDIT)

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Current tax charge/(credit) | | |
| Hong Kong Profits Tax | **192** | 237 |
| PRC Enterprise Income Tax | **–** | (48) |
| Current tax charge, net | **192** | 189 |
| Deferred tax credit | **–** | (12,051) |
| Income tax expense/(credit) | **192** | (11,862) |

A group entity is chargeable to Hong Kong Profits Tax under the two-tiered profits tax rates regime whereby, the first HK$2 million of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime are chargeable to Hong Kong Profits Tax at the tax rate of 16.5%. In the prior year, Hong Kong Profits Tax was calculated at 16.5% on the assessable profits for that year.

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Pursuant to the Implementation Regulation of the EIT Law, the Group's PRC subsidiaries which are engaged in forestry business are entitled to full exemption from PRC Enterprise Income Tax in respect of both of the years presented.

## 11. INCOME TAX EXPENSE/(CREDIT) (Continued)

The income tax expense/(credit) for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Loss before tax | **(340,292)** | (77,113) |
| Tax credit at applicable income tax rate | **(43,123)** | (18,144) |
| Tax effect of expenses not deductible for tax purpose | **43,475** | 9,635 |
| Tax effect of income not taxable for tax purpose | **(989)** | (3,529) |
| Tax effect of tax losses not recognised | **1,009** | 622 |
| Tax effect of deductible temporary differences not recognised | **–** | (250) |
| Others | **(180)** | (196) |
| Income tax expense/(credit) for the year | **192** | (11,862) |

## 12. LOSS FOR THE YEAR

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Loss for the year has been arrived at after charging: | | |
| Directors' emoluments | **2,213** | 1,646 |
| Other staff costs | **8,119** | 7,527 |
| Total staff costs | **10,332** | 9,173 |
| Auditors' remuneration | | |
| — audit services | **931** | 960 |
| — non-audit services | **286** | 558 |
| Cost of inventories recognised and timber harvested | **15,447** | 12,783 |
| Depreciation charge in respect of: | | |
| — property, plant and equipment | **219** | 6,645 |
| — right-of-use assets | **3,269** | – |
| Amortisation of other intangible assets | **4** | 12,876 |
| Amortisation of prepaid land lease payments | **–** | 1,035 |
| Short-term lease expenses | **1,332** | – |
| Operating lease rentals in respect of: | | |
| — land and buildings | **–** | 4,006 |
| — motor vehicles | **–** | 506 |

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors and chief executive

The emoluments paid or payable to each of the directors and chief executive were as follows:

**For the year ended 31 December 2019**

| | Fees RMB'000 | Salaries and other allowances RMB'000 | Share-based payments RMB'000 | Retirement benefits scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| Mr. Lei Zuliang[1] | 49 | – | – | – | 49 |
| Professor Fei Phillip | 396 | – | – | 16 | 412 |
| Mr. Wang Yue | 528 | – | – | – | 528 |
| Mr. Li Wenjun[2] | 264 | – | – | 8 | 272 |
| Mr. Wong Hiu Tung[3] | 239 | – | – | 7 | 246 |
| Ms. Feng Jiamin[4] | 193 | – | – | 6 | 199 |
| Ms. Lu Wei[5] | 190 | – | – | 6 | 196 |
| Non-executive director: | | | | | |
| Professor Liu Zhikun[6] | 21 | – | – | – | 21 |
| Independent non-executive directors: | | | | | |
| Ms. Tian Guangmei | 205 | – | – | – | 205 |
| Mr. Liang Guoxin | 53 | – | – | – | 53 |
| Mr. Liu Zhaoxiang | 32 | – | – | – | 32 |
| Total | 2,170 | – | – | 43 | 2,213 |

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### (a) Directors and chief executive (Continued)

For the year ended 31 December 2018

| | Fees RMB'000 | Salaries and other allowances RMB'000 | Share-based payments RMB'000 | Retirement benefits scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| Mr. Lei Zuliang[1] | 591 | – | – | – | 591 |
| Professor Fei Phillip | 202 | – | – | – | 202 |
| Mr. Wang Yue | 537 | – | – | – | 537 |
| Non-executive director: | | | | | |
| Professor Liu Zhikun[6] | 36 | – | – | – | 36 |
| Independent non-executive directors: | | | | | |
| Ms. Tian Guangmei | 199 | – | – | – | 199 |
| Mr. Liang Guoxin | 51 | – | – | – | 51 |
| Mr. Liu Zhaoxiang | 30 | – | – | – | 30 |
| Total | 1,646 | – | – | – | 1,646 |

1 Mr. Lei Zuliang resigned as an executive director with effect from 1 February 2019.
2 Mr. Li Wenjun was appointed as an executive director with effect from 1 July 2019.
3 Mr. Wong Hiu Tung was appointed as an executive director with effect from 19 July 2019.
4 Ms. Feng Jiamin was appointed as an executive director with effect from 20 August 2019.
5 Ms. Lu Wei was appointed as an executive director with effect from 22 August 2019.
6 Professor Liu Zhikun resigned as a non-executive director with effect from 22 August 2019.

There were no arrangement under which the directors of the Company waived or agreed to waive any remuneration during the both of years presented.

During the years ended 31 December 2019 and 2018, no remuneration was paid by the Group to the director as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### (b) Employees

Of the five individuals with the highest emoluments in the Group, two (2018: two) were directors of the Company whose emoluments are included in the above disclosures. The emoluments of the remaining three (2018: three) individuals were as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Salaries and other allowances | 1,827 | 1,793 |
| Retirement benefits scheme contributions | 33 | 29 |
| | 1,860 | 1,822 |

These three highest paid employees (2018: three employees) whose remuneration fell within the following bands are as follows:

| | 2019 | 2018 |
|---|---|---|
| Nil to HK$1,000,000 | 3 | 3 |
| | 3 | 3 |

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company waived any emolument during the years ended 31 December 2019 and 2018.

## 14. DIVIDEND

No dividend was paid, declared or proposed during the year ended 31 December 2019 (2018: Nil) nor had any dividend been proposed since the end of the reporting period (2018: Nil).

## 15. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Loss** | | |
| Loss for the purpose of basic loss per share | | |
| Loss for the year attributable to owners of the Company | (340,484) | (65,251) |

| | 2019 '000 | 2018 '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic loss per share | 11,024,220 | 7,316,748 |

## 15. LOSS PER SHARE (Continued)

The computation of diluted loss per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for 2019 and 2018.

Diluted loss per share is not presented because, apart from the aforementioned share options, there were no potential ordinary shares in issue for both of these years.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Office equipment, furniture and fixtures RMB'000 | Leasehold improvement RMB'000 | Container houses RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 January 2018 | 407 | 845 | 83,771 | 85,023 |
| Additions | 6 | – | 975 | 981 |
| Disposals | – | – | (48) | (48) |
| Derecognised on disposal of subsidiaries (Note 38(a)) | – | – | (83,723) | (83,723) |
| Exchange realignment | 3 | 42 | – | 45 |
| At 31 December 2018 and 1 January 2019 | **416** | **887** | **975** | **2,278** |
| Acquisition of subsidiaries | **134** | **–** | **–** | **134** |
| Additions | **87** | **–** | **159** | **246** |
| Disposals | **–** | **–** | **(192)** | **(192)** |
| Exchange realignment | **3** | **20** | **–** | **23** |
| At 31 December 2019 | **640** | **907** | **942** | **2,489** |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2018 | 266 | 845 | 760 | 1,871 |
| Depreciation provided for the year | 69 | – | 6,576 | 6,645 |
| Eliminated on disposals | – | – | (5) | (5) |
| Eliminated on disposal of subsidiaries (Note 38(a)) | – | – | (7,295) | (7,295) |
| Exchange realignment | 3 | 42 | – | 45 |
| At 31 December 2018 and 1 January 2019 | **338** | **887** | **36** | **1,261** |
| Depreciation provided for the year | **108** | **–** | **111** | **219** |
| Eliminated on disposals | **–** | **–** | **(24)** | **(24)** |
| Exchange realignment | **2** | **20** | **–** | **22** |
| At 31 December 2019 | **448** | **907** | **123** | **1,478** |
| CARRYING AMOUNTS | | | | |
| At 31 December 2019 | **192** | **–** | **819** | **1,011** |
| At 31 December 2018 | 78 | – | 939 | 1,017 |

## 16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives and after taking into account their estimated residual value. The estimated useful lives of the property, plant and equipment are as follows:

| | |
|---|---|
| Office equipment, furniture and fixtures | 2–10 years |
| Leasehold improvement | 30 years or over the relevant lease, whichever is shorter |
| Container houses | 10–13 years |

## 17. RIGHT-OF-USE ASSETS

| | Leased land RMB'000 (Note a) | Leased properties RMB'000 (Note b) | Total RMB'000 |
|---|---|---|---|
| Transferred from prepaid land lease payments on application of HKFRS16 (Note 18) | 49,754 | – | 49,754 |
| Arising from the adoption of HKFRS 16 | – | 1,666 | 1,666 |
| Carrying amount at 1 January 2019 | 49,754 | 1,666 | 51,420 |
| Additions | – | 8,130 | 8,130 |
| Depreciation provided for the year ended 31 December 2019 | (1,463) | (1,806) | (3,269) |
| Disposals | – | (1,159) | (1,159) |
| Exchange realignment | – | 86 | 86 |
| Carrying amount at 31 December 2019 | 48,291 | 6,917 | 55,208 |

## 17. RIGHT-OF-USE ASSETS (Continued)

| | RMB'000 |
|---|---|
| Expense relating to short-term leases and other leases with lease terms end within twelve months of the date of initial application of HKFRS 16 | 1,332 |
| Total cash outflow for leases | 3,215 |

Notes:

(a) The leased land represents land located in Sichuan, the PRC that are allocated as land portion from the consideration in respect of the forests on such land acquired by the Group. Usage of the land is regulated by the implementation regulations of PRC forest law issued by the State Council of the PRC. Such lands are amortised over the terms of relevant land lease ranging from 33 to 39 years (2018: 34 to 40 years).

(b) The Group leases office under non-cancellable operating lease agreement with lease terms between 2 to 3 years. For instance, the Group had rented an office space in Nanshan district in Shenzhen of the PRC during the year.

## 18. PREPAID LAND LEASE PAYMENTS

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Prepaid lease payments in respect of land under medium-term lease in Sichuan of the PRC | – | 49,754 |
| Analysed for reporting purposes as: | | |
| Non-current asset | – | 48,291 |
| Current asset | – | 1,463 |
| | – | 49,754 |

| | RMB'000 |
|---|---|
| Movements during the years are as follows: | |
| At 1 January 2018 | 28,689 |
| Acquired on acquisition of subsidiaries (Note 37) | 22,100 |
| Amortised for the year | (1,035) |
| At 31 December 2018 | 49,754 |
| Transferred to right-of-use assets upon adoption of HKFRS 16 (Note 17) | (49,754) |
| At 1 January 2019 and 31 December 2019 | – |

## 19. PLANTATION FOREST ASSETS

| | Hengchang Forest RMB'000 | Kunlin Forest RMB'000 | Senbo Forest RMB'000 | Ruixiang Forest RMB'000 | Wantai Forest RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | 206,000 | 55,400 | 66,300 | 143,000 | – | 470,700 |
| Acquisition of subsidiaries (Note 37(a)) | – | – | – | – | 115,122 | 115,122 |
| Other additions during the year | 332 | – | – | – | – | 332 |
| Harvested timber transferred to cost of inventories sold | (2,195) | – | (1,415) | (2,239) | – | (5,849) |
| Changes in fair value less costs to sell (Note 9) | (15,137) | (100) | (1,785) | 239 | 10,878 | (5,905) |
| At 31 December 2018 and 1 January 2019 | 189,000 | 55,300 | 63,100 | 141,000 | 126,000 | 574,400 |
| Harvested timber transferred to cost of inventories sold | (1,818) | (1,341) | (1,468) | (2,057) | (2,342) | (9,026) |
| Changes in fair value less costs to sell (Note 9) | (38,182) | (659) | 2,568 | (8,943) | (5,658) | (50,874) |
| At 31 December 2019 | 149,000 | 53,300 | 64,200 | 130,000 | 118,000 | 514,500 |

Notes:

(a) **Hengchang Forest**

On 28 May 2013, the Group acquired the entire equity interest in China Timbers Limited ("China Timbers") and its subsidiaries (collectively referred as to the "China Timbers Group") which are principally engaged in the operation and management of the forest in Jiange County, Sichuan Province, the PRC ("**Hengchang Forest**"). The **Hengchang Forest** had a total leasehold land base of approximately 21,045 Chinese Mu (equivalent to approximately 1,403 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the **Hengchang Forest**. During the year under review, timber logs of approximately 3,065 cubic metres (2018: 2,837 cubic metres) in respect of the **Hengchang Forest** was harvested and the fair value of the timber logs harvested amounted to approximately RMB1,818,000 (2018: RMB2,195,000), which was estimated by reference to their sale prices less costs to sell, was transferred to cost of inventories sold. As at 31 December 2019, the **Hengchang Forest** is estimated to comprise approximately 1,389 hectares of cypress with no tree plantations aged 40 years or older.

(b) **Kunlin Forest**

On 26 February 2016, the Group acquired the entire equity interest in Exceed Target Investment Group Limited ("Exceed Target") and its subsidiaries (collectively referred to as the "Exceed Target Group") which are principally engaged in the operation and management of the forest in Zhengxing Town, Jiange County, Sichuan Province, the PRC ("**Kunlin Forest**"). Jiange Kunlin Linye Company Limited was transferred from Exceed Target Group to China Timbers Group on 14 November 2018. The **Kunlin Forest** had a total leasehold land base of approximately 9,623 Chinese Mu (equivalent to approximately 642 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the **Kunlin Forest**. During the year under review, timber logs of approximately 1,631 cubic metres (2018: Nil) in respect of **Kunlin Forest** was harvested and the fair value of the timber logs harvested amounted to approximately RMB1,341,000 (2018: Nil), which was estimated by reference to their sale prices less costs to sell, was transferred to cost of inventories sold. As at 31 December 2019, the **Kunlin Forest** is estimated to comprise of approximately 642 hectares of cypress with no tree plantations aged 40 years or older.

## 19. PLANTATION FOREST ASSETS (Continued)

Notes: (Continued)

**(c) Senbo Forest**

On 11 October 2016, the Group acquired the entire equity interest in Huxiang International Holdings Limited ("Huxiang") and its subsidiaries (collectively referred to as the "Huxiang Group") which principally holds plantation forest assets in Yixing Town, Jiange County, Sichuan Province, the PRC ("**Senbo Forest**"). The **Senbo Forest** had a total leasehold land base of approximately 13,219 Chinese Mu (equivalent to approximately 881 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the **Senbo Forest**. During the year under review, timber logs of approximately 2,141 cubic metres (2018: 2,113 cubic metres) in respect of **Senbo Forest** was harvested and the fair value of the timber logs harvested amounted to approximately RMB1,468,000 (2018: RMB1,415,000), which was estimated by reference to their sale prices less costs to sell, was transferred to cost of inventories sold. As at 31 December 2019, the **Senbo Forest** is estimated to comprise of approximately 881 hectares of cypress with approximately 171 hectares of tree plantations aged 40 years or older.

**(d) Ruixiang Forest**

On 6 June 2017, the Group acquired the entire equity interest in Garden Glaze Limited ("Garden Glaze") and its subsidiaries (collectively referred to as the "Garden Glaze Group") which principally holds plantation forest assets in Longyuanzhen, Houshixiang and Dianzixiang town, Jiange County of the Sichuan Province in the PRC ("**Ruixiang Forest**"). The **Ruixiang Forest** had a total leasehold land base of approximately 30,653 Chinese Mu (equivalent to approximately of 2,044 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the **Ruixiang Forest**. During the year under review, timber logs of approximately 3,135 cubic metres (2018: 3,125 cubic metres) in respect of **Ruixiang Forest** was harvested and the fair value of the timber logs harvested amounted to approximately RMB2,057,000 (2018: RMB2,239,000), which was estimated by reference to their sale prices less costs to sell, was transferred to cost of inventories sold. As at 31 December 2019, the **Ruixiang Forest** is estimated to comprise approximately 2,044 hectares of cypress with approximately 9 hectares of tree plantations with aged 40 years or older.

**(e) Wantai Forest**

On 24 August 2018, the Group acquired the entire equity interest in Today Bridge Limited ("Today Bridge") and its subsidiaries (collectively referred to as the "Today Bridge Group") which principally holds plantation forest assets in Kaifeng Town, Yingshui Village, Guangping Village, Zheba Village, Jiange County of the Sichuan Province in the PRC ("**Wantai Forest**"). The **Wantai Forest** had a total leasehold land base of approximately 42,814 Chinese Mu (equivalent to approximately of 2,854 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the **Wantai Forest**. During the year under review, timber logs of approximately 4,758 cubic metres (2018: Nil) in respect of **Wantai Forest** was harvested and the fair value of the timbers logs harvested amounted to approximately RMB2,342,000 (2018: Nil), which was estimated by reference to their sale prices less costs to sell, was transferred to cost of inventories sold. As at 31 December 2019, the **Wantai Forest** is estimated to comprise approximately 2,854 hectares of cypress with no tree plantations with aged 40 years or older.

**(f) Valuation of Plantation Forest Assets**

The Group's plantation forest assets are regarded as biological assets and are carried at 31 December 2019 at fair value less costs to sell, which were valued by Ascent Partners Valuation Service Limited ("Ascent Partners"), independent professional valuers. In view of the non-availability of market value for tree plantations in the PRC, the professional valuers have applied the net present value approach whereby projected future net cash flows, based on their assessments of current timber log prices, were discounted at 15.91%, 16.72%, 16.72%, 16.72% and 16.72% for the **Hengchang Forest**, **Kunlin Forest**, **Senbo Forest, Ruixiang Forest** and **Wantai Forest** respectively, to arrive at the fair value of the plantation forest assets.

## 19. PLANTATION FOREST ASSETS (Continued)

Notes: (Continued)

**(f) Valuation of Plantation Forest Assets (Continued)**

The principal valuation methodology and assumptions adopted are as follows:

*Applicable to all of* ***Hengchang Forest****,* ***Kunlin Forest****,* ***Senbo Forest****,* ***Ruixiang Forest*** *and* ***Wantai Forest***

— The logging permit will be granted by the relevant government authorities.

— The forests are managed on a sustainable basis and sufficient logging quota will be continuously granted by the relevant government authorities.

— The cash flows are those arising from the current rotation of trees only. No account was taken of revenue or costs from re-establishment following harvest, or of land not yet planted.

— The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forests is not taken into account.

— Costs have been derived from external sources and as determined by management. The costs are current average costs. No allowance has been made for cost improvements in future operations.

— The discount rates used in the valuation of the plantation forest assets are determined based on weighted average of cost of capital (WACC).

— The account receivable's period are 180 days.

*Applicable to* ***Hengchang Forest***

— Cash flow projection is determined for a period of 33 years up to 2052 which involved 33 years of logging activities with the first year of logging activities taken to be from 2020. Management have assumed that the logging volume during the forecast period is 5,000 cubic meters in 2020, 8,000 cubic meters in 2021, 10,000 cubic meters in 2022, 14,000 cubic meters in 2023, 16,000 cubic meters for the years from 2024 to 2052 based on the current best estimated harvesting plan. As at the date of approval of these consolidated financial statements, the Group has not obtained logging permits for the harvest of timber logs in the year of 2020 and onwards.

— The average increment in log sales prices is expected to be 1.26% per annum, which is in line with the long-term producer price index of forestry product.

— The discount rate applied is 15.91%.

— The inflation rate on other operation costs is 2.27% per annum.

— The biological growth rate of cypress is 5.43%.

— The yielding rate for cypress is 66%.

— The expected selling price has been derived from market information.

## 19. PLANTATION FOREST ASSETS (Continued)

Notes: (Continued)

**(f) Valuation of Plantation Forest Assets (Continued)**

*Applicable to* ***Kunlin Forest***

— Cash flow projection is determined for a period of 16 years up to 2035 which involved 16 years of logging activities with the first year of logging activities taken to be from 2020. Management have assumed that the logging volume during the forecast period is 3,000 cubic meters in 2020, 4,000 cubic meters in 2021, 5,000 cubic meters in 2022, 6,000 cubic meters in 2023, 7,000 cubic meters for the years from 2024 to 2034 and 5,471 cubic meters in 2035 based on the current best estimated harvesting plan. As at the date of approval of these consolidated financial statements, the Group has not obtained logging permits for the harvest of timber logs in the year of 2020 and onwards.

— The average increment in log sales prices is expected to be 1.26% per annum, which is in line with the long-term producer price index of forestry product.

— The discount rate applied is 16.72%.

— The inflation rate on other operation costs is 2.27% per annum.

— The biological growth rate of cypress is 5.43%.

— The yielding rate for cypress is 66%.

— The expected selling price has been derived from market information.

*Applicable to* ***Senbo Forest***

— Cash flow projection is determined for a period of 30 years up to 2049 which involved 30 years of logging activities with the first year of logging activities taken to be from 2020. Management have assumed that the logging volume during the forecast period is 3,000 cubic meters in 2020, 4,000 cubic meters in 2021, 5,000 cubic meters in 2022, 6,000 cubic meters in 2023, 7,000 cubic meters for the years from 2024 to 2048 and 6,947 cubic meters in 2049 based on the current best estimated harvesting plan. As at the date of approval of these consolidated financial statements, the Group has not obtained logging permits for the harvest of timber logs in the year of 2020 and onwards.

— The average increment in log sales prices is expected to be 1.26% per annum, which is in line with the long-term producer price index of forestry product.

— The discount rate applied is 16.72%.

— The inflation rate on other operation costs is 2.27% per annum.

— The biological growth rate of cypress is 5.43%.

— The yielding rate for cypress is 66%.

— The expected selling price has been derived from market information.

## 19. PLANTATION FOREST ASSETS (Continued)

Notes: (Continued)

**(f) Valuation of Plantation Forest Assets (Continued)**

*Applicable to* ***Ruixiang Forest***

— Cash flow projection is determined for a period of 26 years up to 2045 which involved 26 years of logging activities with the first year of logging activities taken to be from 2020. Management have assumed that the logging volume during the forecast period is 5,000 cubic meters in 2020, 8,000 cubic meters in 2021, 10,000 cubic meters in 2022, 14,000 cubic meters in 2023, 16,000 cubic meters for the years from 2024 to 2044 and 6,362 cubic meters in 2045 based on the current best estimated harvesting plan. As at the date of approval of these consolidated financial statements, the Group has not obtained logging permits for the harvest of timber logs in the year of 2020 and onwards.

— The average increment in log sales prices is expected to be 1.26% per annum, which is in line with the long-term producer price index of forestry product.

— The discount rate applied is 16.72%.

— The inflation rate on other operation costs is 2.27% per annum.

— The biological growth rate of cypress is 5.43%.

— The yielding rate for cypress is 66%.

— The expected selling price has been derived from market information.

*Applicable to* ***Wantai Forest***

— Cash flow projection is determined for a period of 33 years up to 2052 which involved 33 years of logging activities with the first year of logging activities taken to be from 2020. Management have assumed that the logging volume during the forecast period is 5,000 cubic meters in 2020, 8,000 cubic meters in 2021, 10,000 cubic meters in 2022, 14,000 cubic meters in 2023, 16,000 cubic meters for the years from 2024 to 2052 based on the current best estimated harvesting plan. As at the date of approval of these consolidated financial statements, the Group has not obtained logging permits for the harvest of timber logs in the year of 2020 and onwards.

— The average increment in log sales prices is expected to be 1.26% per annum, which is in line with the long-term producer price index of forestry product.

— The discount rate applied is 16.72%.

— The inflation rate on other operation costs is 2.27% per annum.

— The biological growth rate of cypress is 5.43%.

— The yielding rate for cypress is 66%.

— The expected selling price has been derived from market information.

## 19. PLANTATION FOREST ASSETS (Continued)

Notes: (Continued)

**(f) Valuation of Plantation Forest Assets (Continued)**

*Applicable to* ***Wantai Forest*** (Continued)

The fair value less costs to sell of the plantation forest assets at 31 December 2019 and 31 December 2018 have been determined based on Level 3 fair value measurement. There has been no change from the valuation technique used in the prior year. In determining the fair value less costs to sell of the plantation forest assets, the highest and best use of the plantation forest assets is their current use.

The PRC government strictly implements a quota system for the quantities of forest wood to be logged annually and accordingly, such limited quota is competed vigorously among the numerous forestry operators. Without the approved logging permits, the Group will not be able to start operations for generating revenue in the forestry segment. In the opinion of the directors of the Company, the absence of logging permit does not impair their value to the Group as the Group has legally obtained ownership title to the forestry assets and is qualified to make the application of the logging permits which will be granted by the PRC government shortly after application.

**(g) Other risks associated with the plantation forest assets**

The Group is exposed to a number of risks related to its plantation forest assets:

*Regulatory and environmental risks*

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

*Climate and other risks*

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by the local forestry authorities. Other than the above-mentioned quotas, the Group's revenue also depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. The Group's standing timbers is exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

*Supply and demand risk*

The Group is exposed to risks arising from fluctuations in the price and sales volume of timber. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

## 20. LOANS RECEIVABLE

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Loans and interests thereon receivable | | |
| — within one year | **130,765** | 34,747 |
| — in the second to fifth years | **–** | 90,860 |
| | **130,765** | 125,607 |
| Less: Impairment loss recognised | **(130,765)** | (1,572) |
| | **–** | 124,035 |

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Analysed for reporting purposes: | | |
| Classified under | | |
| — Non-current assets | **–** | 89,952 |
| — Current assets | **–** | 34,083 |
| | **–** | 124,035 |

Movements during the year are as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| At 1 January | **124,035** | 71,869 |
| Loan made by the Group | **–** | 73,815 |
| Interest on loans receivable | **6,343** | 5,719 |
| Loan and interest repaid | **(4,036)** | (31,035) |
| Impairment loss recognised | **(126,907)** | (1,514) |
| Exchange realignment | **565** | 5,181 |
| At 31 December | **–** | 124,035 |

Movements of impairment loss on loans receivable are as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| At 1 January | **1,572** | – |
| Impairment loss recognised (Note 9) | **126,907** | 1,514 |
| Exchange realignment | **2,286** | 58 |
| At 31 December | **130,765** | 1,572 |

Details of the impairment loss recognised on loans receivable are set out in Note 44(B)(iii)(a).

## 20. LOANS RECEIVABLE (Continued)

Details of the loans receivable outstanding at 31 December 2019 are as follows:

| Loan principal amount HK$'000 | Interest rate per annum | Maturity date | Security pledged |
|---|---|---|---|
| 12,500 | 6% | 15 June 2020 | Note b |
| 12,500 | 6% | 10 June 2020 | Note b |
| 11,026 | 6% | 6 July 2020 | Note b |
| 12,000 | 6% | 3 July 2020 | Note c |
| 9,300 | 6% | 25 July 2020 | Note c |
| 40,000 | 6% | 6 August 2020 | Note b |
| 25,000 | 6% | 9 August 2020 | Note b |
| 15,000 | 6% | 19 September 2020 | Note b |
| 137,326 | | | |

Notes:

(a) Loans and interests thereon will be settled by the borrowers at the respective maturity dates.

(b) These loans with the aggregate principal amount of HK$116,026,000 are secured by certain goods and machineries owned by the borrowers.

(c) The loans are secured by guarantees given by certain PRC individuals.

## 21. GOODWILL

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Cost** | | |
| At beginning and end of the year | **357** | 357 |
| **Impairment** | | |
| At beginning of the year | **(357)** | (357) |
| Provided for the year | **–** | – |
| At end of the year | **(357)** | (357) |
| **Carrying amounts** | | |
| At end of the year | **–** | – |

Goodwill has been allocated for impairment testing purposes to the cash-generating unit ("CGU") of provision of services in relation to management, leasing, sale and installation of container houses and related business and impairment loss on this goodwill was recognised in profit or loss in respect of the prior year.

## 22. OTHER INTANGIBLE ASSETS

| | Trademark RMB'000 | Patent RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 and 31 December 2018 | 80,000 | 54,000 | 134,000 |
| Acquisition of a subsidiary | 82 | – | 82 |
| Disposals | (82) | – | (82) |
| At 31 December 2019 | 80,000 | 54,000 | 134,000 |
| **Accumulated amortisation and impairment** | | | |
| At 1 January 2018 | 51,257 | 35,540 | 86,797 |
| Amortisation charge provided for the year | 7,332 | 5,544 | 12,876 |
| Impairment loss recognised for the year (Note 9) | 21,411 | 12,916 | 34,327 |
| At 31 December 2018 | 80,000 | 54,000 | 134,000 |
| Amortisation charge provided for the year | 4 | – | 4 |
| Eliminated on disposals | (4) | – | (4) |
| At 31 December 2019 | 80,000 | 54,000 | 134,000 |
| **Carrying amount** | | | |
| At 31 December 2019 | – | – | – |
| At 31 December 2018 | – | – | – |

The intangible assets were acquired during the year ended 31 December 2016 following the acquisition by the Group of certain subsidiaries which are engaged in the provision of services in relation to management, leasing, sale and installation of container houses and related business.

The following useful lives are used in the calculation of amortisation of intangible assets:

| | |
|---|---|
| Trademark | 5.25 years |
| Patent | 4.67 years |

The amortisation charge for the year is included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

In view that the subsidiaries sustained significant losses arising from business operations, impairment losses on other intangible assets totalled RMB34,327,000 were recognised in profit or loss in respect of the year ended 31 December 2018.

## 23. INVENTORIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Raw materials | **1,190** | 1,096 |

## 24. TRADE AND OTHER RECEIVABLES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade receivables | **7,050** | 30,436 |
| Other receivables | **1,407** | 96,453 |
| | **8,457** | 126,889 |

The Group generally allows an average credit period of 90 days (2018: 90 days) to its trade customers, where partial payment in advance is normally required. The Group does not hold any collateral over these balances. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on invoice dates:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| 0–90 days | **4,599** | 26,938 |
| 91–180 days | **90** | 3,251 |
| 181–365 days | **2,361** | 247 |
| Total | **7,050** | 30,436 |

## 24. TRADE AND OTHER RECEIVABLES (Continued)

### (a) Trade receivables

An aged analysis of the Group's trade receivables, that are past due but not impaired, is as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Past due: | | |
| 0–90 days | **90** | 3,251 |
| More than 90 days | **2,361** | 247 |
| Total | **2,451** | 3,498 |

The trade receivables that are past due but not impaired related to a number of customers. Having considered the credit quality of the customers and past experience of debts settlement, management of the Group is of the view that these trade receivables are fully recoverable and impairment loss on the receivables is not required to be made.

Movements of allowance of trade receivables are as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| At 1 January | **–** | – |
| Impairment loss recognised (Note 9) | **61,550** | – |
| At 31 December | **61,550** | – |

Details of the allowance of trade receivables are set out in note 44(B)(iii)(b).

### (b) Other receivables

An analysis of other receivables is as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Proceeds receivable from disposal of subsidiaries (Note below) | **94,648** | 93,000 |
| Sundry receivables | **1,407** | 3,453 |
| | **96,055** | 96,453 |
| Less: allowance for doubtful debts | **(94,648)** | – |
| | **1,407** | 96,453 |

## 24. TRADE AND OTHER RECEIVABLES (Continued)

### (b) Other receivables (Continued)

Note: The proceeds receivable from disposal of subsidiaries amounted to HK$105,657,000 (equivalent to RMB94,648,000 and RMB93,000,000 at 31 December 2019 and at 31 December 2018 respectively) are unsecured and interest free. Pursuant to the related disposal agreement, such proceeds receivable to the extent of RMB40,000,000 are settled within six months from 14 December 2018, being the date of completion of the disposal, with the remaining balance of RMB53,000,000 which are settled within one year from 14 December 2018. No settlement of the proceeds receivable was received by the Group up to the date of approval of these consolidated financial statements.

Movements of allowance of other receivables are as follows:

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| At 1 January | **–** | – |
| Impairment loss recognised (Note 9) | **93,000** | – |
| Exchange realignment | **1,648** | – |
| At 31 December | **94,648** | – |

Details of the impairment loss made on other receivables are set out in Note 44(B)(iii)(a).

## 25. DEPOSITS AND PREPAYMENTS

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Other deposits paid | **2,066** | 1,316 |
| Prepayments | **2,643** | 3,143 |
| | **4,709** | 4,459 |

## 26. BANK BALANCES AND CASH

At 31 December 2019, the Group's bank balances and cash denominated in RMB amounted to approximately RMB448,000 (2018: RMB749,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The bank balances carry interests at rates of 0.125% to 0.385% (2018: 0.125% to 0.385%) per annum.

## 27. TRADE AND OTHER PAYABLES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Trade payables (Note ii) | **1,149** | 3,443 |
| Consideration payable for acquisition of subsidiary | **7,514** | 7,350 |
| Other payables | **10,066** | 7,423 |
| Deposits received | **1,783** | 1,039 |
| Accrued charges | **2,392** | 1,921 |
| | **22,904** | 21,176 |

Notes:

(i) The average credit period on purchase of goods is within 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

(ii) The following is an aged analysis of trade payables presented based on invoice dates:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| 0–30 days | **5** | 342 |
| 31–90 days | **–** | 1,472 |
| Over 90 days | **1,144** | 1,629 |
| | **1,149** | 3,443 |

## 28. PROMISSORY NOTES PAYABLE

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Promissory notes payable: | | |
| — issued on 28 May 2013 (Note A) | **–** | – |
| — issued on 6 June 2017 (Note B) | **22,723** | 21,872 |
| — issued on 21 November 2017 (Note C) | **–** | – |
| — issued on 15 August 2018 (Note D) | **29,844** | 23,783 |
| | **52,567** | 45,655 |

## 28. PROMISSORY NOTES PAYABLE (Continued)

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Carrying amount payable | | |
| — Within one year | **52,567** | 21,872 |
| — More than two years, but not exceeding five years | **–** | 23,783 |
| | **52,567** | 45,655 |
| Less: Amount shown under current liabilities | **(52,567)** | (21,872) |
| Amount shown under non-current liabilities | **–** | 23,783 |

### (a) Promissory note issued on 28 May 2013 (the "Note A")

On 28 May 2013, the Company issued the Note A with the principal amount of HK$144,000,000 as part of the consideration for the acquisition of the entire equity interest in China Timbers and its subsidiaries. Under the agreement relating to the Note A, the Note A, which is unsecured, carries interest at 3% per annum for the first two years from the date of issue and 8% per annum thereafter, and is payable on the maturity date of 28 May 2018 at its principal amount. The Company is also entitled to redeem the whole or part of the Note A at the principal amount at any time before the maturity date.

As at 31 December 2017, the Note A with the principal amount of HK$27,503,000 remained outstanding.

On 23 May 2018, the Company entered into a supplemental deed to amend certain terms and conditions of the Note A, pursuant to which the parties thereto agreed to extend the maturity date of the Note A with the principal amount of HK$27,503,000 from 28 May 2018 to 28 August 2018.

During the year ended 31 December 2018, the Company fully redeemed the Note A with the principal amount of HK$27,503,000 for a total cash consideration of HK$17,740,000 and RMB8,000,000 (equivalent to a total of RMB23,201,000).

### (b) Promissory note issued on 6 June 2017 (the "Note B")

On 6 June 2017, the Company issued Note B with the principal amount of HK$170,000,000 as the consideration for acquisition of the entire equity interest in Garden Glaze and its subsidiaries.

Under the agreement relating to the Note B, the note B is unsecured, carries interest at 5% per annum and is payable on the maturity date of 5 June 2019. On 3 June 2019, the Company entered into a supplemental deed to amend certain terms and conditions of the Note B, with the principal amount of HK$23,800,000 from 5 June 2019 to 5 July 2019. The Company is also entitled to redeem the whole or part the Note B at any time before the maturity date by 7 business days advance notice.

The fair value of the Note B at the date of its issue was estimated to be HK$148,516,000 (equivalent to RMB129,743,000) as valued by Ascent Partners, using the effective interest rate of 12.21% per annum.

As at 31 December 2019, the Note B with the principal amount of HK$23,800,000 (31 December 2018: HK$23,800,000) remained outstanding. The effective interest rate in respect of the Note B at 31 December 2019 is 12.21% per annum (31 December 2018: 12.21% per annum).

## 28. PROMISSORY NOTES PAYABLE (Continued)

### (c) Promissory note issued on 21 November 2017 (the "Note C")

On 21 November 2017, the Company issued the Note C with the principal amount of RMB95,000,000 as part of the consideration for acquisition of the entire equity interest in Xiangyin Chong Sheng Chi Yip Limited.

Under the agreement relating to the Note C, the Note C is unsecured, carries interest at 3.5% per annum and is payable on the maturity date of 20 November 2019. The Company is also entitled to redeem the whole or part of the Note C at any time after the issue date to one day before the maturity date by 10 business days advance notice.

The fair value of the Note C at the date of its issue was estimated to be RMB79,239,000 as valued by Ascent Partners, using the effective interest rate of 13.34% per annum.

As at 31 December 2017, the Note C with the principal amount of RMB95,000,000 remained outstanding.

During the year ended 31 December 2018, the Company fully redeemed the Note C with the principal amount of RMB95,000,000 for a total cash consideration of HK$116,242,000 (equivalent to RMB98,062,000).

### (d) Promissory note issued on 15 August 2018 (the "Note D")

On 15 August 2018, the Company issued the Note D with the principal amount of HK$34,100,000 as part of the consideration for acquisition of the entire equity interest in Today Bridge and its subsidiaries (Note 37(a)).

Under the agreement relating to the Note D, the Note D is unsecured, carries interest at 5% per annum and is payable on the maturity date of 14 August 2020. The Company is also entitled to redeem the whole or part of the Note D at any time after the issue date to one day before the maturity date.

The fair value of the Note D at the date of its issue was estimated to be HK$24,934,000 (equivalent RMB21,825,000) as valued by B.I. Appraisals, an external valuer, using the effective interest rate of 23.27% per annum.

At the end of the reporting period, the Note D with the principal amount of HK$34,100,000 (2018: HK$34,100,000) remained outstanding. The effective interest rate in respect of the Note D at 31 December 2019 is 23.27% per annum (2018: 23.27%).

## 28. PROMISSORY NOTES PAYABLE (Continued)

**(e)** Movement of the Company's promissory notes payable for both of the years presented are as follows:

| | Note A<br>RMB'000 | Note B<br>RMB'000 | Note C<br>RMB'000 | Note D<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 22,560 | 65,475 | 80,397 | – | 168,432 |
| Issue of promissory notes for acquisition of subsidiaries (Note 37(a)) | – | – | – | 21,825 | 21,825 |
| Interest charge for the year (Note 10) | 1,677 | 2,647 | 5,931 | 1,864 | 12,119 |
| Interest paid during the year | (1,244) | – | – | – | (1,244) |
| Promissory notes repaid during the year | (23,201) | (50,616) | (98,062) | – | (171,879) |
| Loss on early repayment of promissory notes (Note (i)) | – | 5,245 | 9,256 | – | 14,501 |
| Interest payable included in trade and other payables | – | (2,295) | – | – | (2,295) |
| Exchange realignment | 208 | 1,416 | 2,478 | 94 | 4,196 |
| At 31 December 2018 and 1 January 2019 | – | 21,872 | – | 23,783 | 45,655 |
| Interest charge for the year (Note 10) | – | 1,344 | – | 5,433 | 6,777 |
| Interest paid during the year | – | (989) | – | – | (989) |
| Exchange realignment | – | 496 | – | 628 | 1,124 |
| At 31 December 2019 | – | 22,723 | – | 29,844 | 52,567 |

Notes:

(i) During the year ended 31 December 2018, the Note B and Note C with the principal amount of HK$60,000,000 and RMB95,000,000 respectively were repaid by the Company. The loss on repayment of promissory notes, which represents the excess of the aggregate of the consideration paid of HK$176,242,000 (equivalent to RMB148,678,000) over the carrying amount of the notes repaid at the dates of repayments, amounted to RMB14,501,000 which has been recognised to profit or loss for that year (Note 9).

## 29. CORPORATE BONDS PAYABLE

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Unsecured corporate bonds payable: | | |
| — Within one year | **98,015** | 47,670 |
| — More than one year, but not exceeding two years | **31,411** | 26,885 |
| — More than two years, but not exceeding five years | **114,689** | 112,755 |
| — More than five years | **9,468** | 34,701 |
| | **253,583** | 222,011 |
| Less: Amount shown under current liabilities | **(98,015)** | (47,670) |
| Amount shown under non-current liabilities | **155,568** | 174,341 |

Movements of the corporate bonds payable are as follows:

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| At 1 January | **222,011** | 208,574 |
| Proceeds received on issue of corporate bonds, net of interest prepaid | **28,958** | – |
| Interest charge for the year (Note 10) | **16,143** | 16,270 |
| Interest paid during the year | **(10,068)** | (13,011) |
| Repayments during the year | **(8,890)** | – |
| Exchange realignment | **5,429** | 10,178 |
| At 31 December | **253,583** | 222,011 |

During the current year, the Company issued unsecured corporate bonds with the aggregate principal amounts of HK$32,900,000 (2018: Nil), which gave rise to a total proceeds of HK$32,900,000 (2018: Nil), equivalent to RMB28,958,000 (2018: Nil) (before expenses).

During the current year, the Group made repayments of part of the corporate bonds with the principal amount of HK$10,100,000, equivalent to RMB8,890,000 (2018: Nil).

At the end of the reporting period, the corporate bonds payable with the principal amount of HK$276,000,000 (2018: HK$253,200,000) remained outstanding.

## 29. CORPORATE BONDS PAYABLE (Continued)

An analysis of the corporate bonds payable outstanding at 31 December 2019 is as follows:

| Date of issue | Principal amount of corporate bonds HK$ | Interest rate per annum | Maturity date |
|---|---|---|---|
| 17 January 2014 | 5,000,000 | 7% | 16 January 2021 |
| 26 February 2014 | 5,000,000 | 7% | 25 February 2021 |
| 10 March 2014 | 5,000,000 | 7% | 9 March 2021 |
| 8 April 2014 | 10,000,000 | 4% | 7 April 2022 |
| 8 April 2014 | 5,000,000 | 7% | 7 April 2021 |
| 15 April 2014 | 10,000,000 | 6% | 14 April 2022 |
| 17 April 2014 | 10,000,000 | 6% | 16 April 2022 |
| 7 May 2014 | 10,000,000 | 6% | 6 May 2022 |
| 12 May 2014 | 5,000,000 | 6% | 11 May 2022 |
| 28 May 2014 | 5,000,000 | 7% | 27 May 2021 |
| 5 June 2014 | 3,000,000 | 7% | 4 June 2021 |
| 18 June 2014 | 10,000,000 | 5% | 17 June 2022 |
| 20 August 2014 | 6,700,000 | 6% | 19 August 2019 |
| 5 September 2014 | 4,400,000 | 6% | 4 September 2020 |
| 17 October 2014 | 10,000,000 | 5% | 16 October 2022 |
| 18 March 2015 | 10,000,000 | 5.5% | 17 March 2022 |
| 21 August 2015 | 3,000,000 | 7% | 20 August 2019 |
| 13 October 2015 | 6,600,000 | 6.5% | 12 October 2021 |
| 25 November 2015 | 7,000,000 | 7% | 24 November 2019 |
| 8 January 2016 | 10,500,000 | 7% | 7 January 2020 |
| 16 November 2016 | 6,900,000 | 9% | 15 May 2024 |
| 19 November 2016 | 10,000,000 | 7% | 18 November 2023 |
| 29 November 2016 | 3,100,000 | 9% | 28 May 2024 |
| 5 January 2017 | 9,000,000 | 5% | 4 January 2022 |
| 19 January 2017 | 1,000,000 | 8.5% | 18 July 2024 |
| 17 March 2017 | 10,000,000 | 7% | 16 March 2024 |
| 23 March 2017 | 15,500,000 | 7% | 22 March 2020 |
| 25 May 2017 | 8,900,000 | 8.5% | 24 August 2019 |
| 8 June 2017 | 10,000,000 | 7% | 7 June 2024 |
| 2 August 2017 | 10,000,000 | 7% | 1 August 2025 |
| 28 September 2017 | 17,500,000 | 7% | 27 September 2019 |

## 29. CORPORATE BONDS PAYABLE (Continued)

| Date of issue | Principal amount of corporate bonds HK$ | Interest rate per annum | Maturity date |
|---|---|---|---|
| 4 March 2019 | 5,600,000 | 5% | 3 July 2020 |
| 26 March 2019 | 1,170,000 | 8% | 25 September 2019 |
| 8 April 2019 | 3,000,000 | 5% | 9 April 2020 |
| 18 April 2019 | 2,000,000 | 5% | 17 April 2020 |
| 26 April 2019 | 1,000,000 | 5% | 25 April 2020 |
| 29 July 2019 | 1,700,000 | 5% | 28 July 2020 |
| 17 June 2019 | 950,000 | 5% | 16 June 2020 |
| 6 August 2019 | 3,480,000 | 8% | 5 February 2020 |
| 26 August 2019 | 3,000,000 | 10% | 25 February 2020 |
| 21 October 2019 | 4,000,000 | 10% | 20 April 2020 |
| 11 December 2019 | 2,000,000 | 10% | 10 June 2020 |
| 23 December 2019 | 5,000,000 | 8% | 22 January 2020 |
| | 276,000,000 | | |

The effective interest rate of the corporate bonds payable in respect of the current year ranged from 4.15% to 12.37% per annum (2018: 4.15% to 12.37% per annum).

## 30. LEASE LIABILITIES

| | 2019 RMB'000 |
|---|---|
| Lease liabilities payable: | |
| Within one year | **3,214** |
| Within a period of more than one year but not more than two years | **2,849** |
| Within a period of more than two years but not more than five years | **886** |
| | **6,949** |
| Less: Amount due for settlement within twelve months included in current liabilities | **(3,214)** |
| Amount due for settlement after twelve months shown under non-current liabilities | **3,735** |

## 31. CONTINGENT CONSIDERATION PAYABLE

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Contingent consideration payable in relation to the acquisition of Gorgeous City Investment Limited, ("**Gorgeous City**") at fair value | – | – |
| Analysed for reporting purposes: | | |
| Classified under | | |
| — Non-current liabilities | – | – |
| — Current liabilities | – | – |
| | – | – |

In connection with the acquisition of Gorgeous City in the year ended 31 December 2016, under the terms of the acquisition agreement, the balance of the purchase consideration of RMB210,000,000 is contingent and will be settled if Shenzhen Heng Fu Delaisi Intelligent Housing Limited ("**Delaisi**") has fulfilled the profit guarantee of the period specified below during the guaranteed periods:

| Guaranteed period | Profit guarantee RMB'000 (Note) | Contingent consideration RMB'000 | Manner of payment of the consideration if the profit guarantee is achieved |
|---|---|---|---|
| The completion date (inclusive) to 31 December 2016 | 17,500 | 17,500 | RMB5,250,000 is to be paid by cash and RMB12,250,000 by issue of new shares of the Company |
| 1 January 2017 to 30 June 2017 | 24,500 | 24,500 | RMB7,350,000 is to be paid by cash and RMB17,150,000 by issue of new shares of the Company |
| 1 July 2017 to 31 December 2017 | 31,500 | 31,500 | RMB9,450,000 is to be paid by cash and RMB22,050,000 by issue of new shares of the Company |
| 1 January 2018 to 30 June 2018 | 38,500 | 38,500 | RMB11,550,000 is to be paid by cash and RMB26,950,000 by issue of new shares of the Company |
| 1 July 2018 to 31 December 2018 | 45,500 | 45,500 | RMB13,650,000 is to be paid by cash and RMB31,850,000 by issue of new shares of the Company |
| 1 January 2019 to 30 June 2019 | 52,500 | 52,500 | RMB15,750,000 is to be paid by cash and RMB36,750,000 by issue of new shares of the Company |
| | | 210,000 | |

Note: Profit guarantee refers to the audited net profit after taxation of Delaisi, which is prepared in accordance with HKFRSs, for the respective guaranteed periods.

## 31. CONTINGENT CONSIDERATION PAYABLE (Continued)

The vendors jointly and severally provide the profit guarantees of Delaisi in favour of the Company for the guaranteed period up to and ended on 30 June 2019.

In the event that during any guaranteed period, Delaisi is able to meet 70% or more of the corresponding profit guarantee but less than 100% thereof during the relevant guaranteed period, the amount of the consideration payable to the Vendors during the relevant guaranteed period shall be paid proportionately and the Company has no obligation to pay such consideration or any part thereof to the Vendors for that shortfall during such guaranteed period unless the net profits of Delaisi (after tax) of the succeeding guaranteed period or the succeeding full year exceeds the amount of guaranteed profit of that succeeding period with the surplus being sufficient to make up for the shortfall of the preceding guaranteed period or any part thereof whereby the Company shall pay back the corresponding shortfall of the consideration to the Vendors.

On the other hand, if Delaisi fails to meet 70% of the profit guarantee or having net loss during any guaranteed period, the Company has no obligation to pay the consideration or any part thereof to the Vendors for the specific guaranteed period unless the net profits of Delaisi (after tax) of the succeeding guaranteed period or the succeeding full year exceeds the amount of guaranteed profit of that succeeding period with the surplus being sufficient to make up all or part of the shortfall of the preceding year whereby the Company shall pay back the consideration to the Vendors on a pro rata basis.

If upon the expiration of the guaranteed period ended on 30 June 2019, the accumulated net profits of Delaisi (after taxation) is less than RMB210,000,000, the Vendors shall jointly and severally pay to the Company a compensation calculated by the following formula:

> RMB40,000,000 X (1 – (the accumulated net profits of Delaisi during the guarantee period/ RMB210,000,000) x 100%)

Hence, if the accumulated profits of Delaisi amounted to nil or is loss-making during the guarantee period, the Vendors shall jointly and severally compensate the Company with a sum of RMB40,000,000.

During the year ended 31 December 2017, following the fulfillment of the profit guarantee of Delaisi amounted to RMB24,500,000 for the period from 1 January 2017 to 30 June 2017, the Company issued approximately 62,321,000 new shares to the Vendors on 6 October 2017. The fair value of these new shares at the date of their issue is estimated to be HK$0.1 per share, by reference to the closing price of the shares of the Company at that date quoted on the Stock Exchange. The cash payment of RMB7,350,000, which was not settled by the Company, was included in trade and other payables (Note 27).

Delaisi failed to achieve the profit guarantee in respect of the periods from 1 July 2017 to 31 December 2017, 1 January 2018 to 30 June 2018, 1 July 2018 to 31 December 2018 and 1 January 2019 to 30 June 2019, accordingly the Company is not required to make any cash payment or issue new shares to the vendors in relation to these parts of the profit guarantee.

Under the terms of the profit guarantee, if the accumulated profit of Delaisi for the guarantee period ending 30 June 2019 is less than RMB210,000,000, the vendors is required to compensate the Company at the amount which is calculated by the formula specified therein. Although management of the Group expected that the accumulated profit of Delaisi for the guaranteed period is less than RMB210,000,000, as the receipt by the Company of such compensation, if any, cannot be ascertained with reasonable certainty, management considers it appropriate not to recognise the fair value of this contingent compensation in the consolidated financial statements.

## 32. DEFERRED TAX ASSETS

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Deferred tax assets | **(250)** | (250) |

Movements in the deferred tax assets during the year are as follows:

| | **Provision for impairment** RMB'000 | **Fair value adjustments on business combination** RMB'000 | **Total** RMB'000 |
|---|---|---|---|
| At 1 January 2018 | – | 11,801 | 11,801 |
| Credit to profit or loss for the year (Note 11) | (250) | (11,801) | (12,051) |
| At 31 December 2018 | (250) | – | (250) |
| Credit to profit or loss for the year (Note 11) | – | – | – |
| At 31 December 2019 | (250) | – | (250) |

As at 31 December 2019, the Group had unrecognised tax losses of approximately RMB7,439,000 (2018: RMB7,439,000), which can be carried forward to offset future taxable profit and will expire within five years after the end of the reporting period. No deferred tax asset had been recognised in respect of these tax losses due to the unpredictability of future profit streams.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately RMB67,931,000 (2018: RMB99,008,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 33. SHARE CAPITAL

| | Par value HK$ | Number of ordinary shares '000 | Nominal amount of ordinary shares HK$'000 |
|---|---|---|---|
| *Authorised:* | | | |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | 0.002 | 50,000,000 | 100,000 |

| | Par value HK$ | Number of ordinary shares '000 | Nominal amount of ordinary shares HK$'000 | Carrying amount RMB'000 |
|---|---|---|---|---|
| *Issued and fully paid:* | | | | |
| At 1 January 2018 | 0.002 | 4,409,688 | 8,819 | 7,501 |
| Issue of shares on rights issue (Note a) | 0.002 | 6,614,532 | 13,229 | 11,515 |
| At 31 December 2018 and 31 December 2019 | 0.002 | 11,024,220 | 22,048 | 19,016 |

Notes:

(a) On 25 January 2018, the Company announced to implement a rights issue of new shares of the Company at the subscription price of HK$0.052 per rights share on the basis of three rights shares for every two existing shares held. In August 2018, 6,614,532,249 new shares of HK$0.002 each were issued by the Company pursuant to the terms of the rights issue, giving rising to gross proceeds from shares issue of approximately HK$343,956,000 (equivalent to RMB299,386,000) before expenses.

## 34. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed on 15 September 2009 for the primary purpose of providing incentives to selected participants, including directors and eligible employees of the Company and its subsidiaries. Under the Scheme, the board of directors of the Company may grant options to eligible participants, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A nominal consideration of HK$1 is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the last day of the ten-year period after grant date. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

No share options were granted, exercised, forfeited or lapsed during the year ended 31 December 2019 and no share options remained outstanding as at that date.

Movements during the year ended 31 December 2018 of the share options granted are as follows:

| | | | Movements of number of share options granted during the year | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Exercise price per share HK$ | Date of grant | Outstanding at 1 January 2018 | Adjustment made for the rights issue | Granted | Exercised | Forfeited | Expired | Outstanding at 31 December 2018 |
| Directors | 0.082 | 1 December 2017 | 10,000,000 | 610,000 | – | – | – | (10,610,000) | – |
| Other participants | 0.082 | 1 December 2017 | 329,843,000 | 20,112,000 | – | – | – | (349,955,000) | – |
| | | | 339,843,000 | 20,722,000 | – | – | – | (360,565,000) | – |
| Exercisable at the end of the year | | | | | | | | | – |
| Weighted average exercise price per share | | | HK$0.087 | HK$0.082 | – | – | – | HK$0.082 | HK$– |

During the year ended 31 December 2018, all the share options, which have not been exercised, lapsed upon the expiration of the exercise period.

## 35. RETIREMENT BENEFIT SCHEMES

The Group has participated in defined contribution retirement schemes established under Mandatory Provident Fund Ordinance ("**MPF schemes**") for its employees in Hong Kong. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of independent trustees. Under the rules of the MPF Schemes, each of the employer and its employees are generally required to make contributions to the schemes at 5% of the employee's relevant monthly income, subject to a cap of monthly relevant income of HK$25,000 before 1 June 2014 and HK$30,000 thereafter. Contributions to the plan vest immediately.

The employees of PRC subsidiaries of the Company are members of state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income of approximately RMB323,000 (2018: RMB483,000) represents contributions payable by the Group at rates or amounts specified in the schemes.

Apart from the above, the Group has no significant obligations under retirement benefit schemes at the end of both of the years presented.

## 36. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises and motor vehicle under operating lease arrangements with leases negotiated for an average term of two to three years (2018: three to five years) and rentals are fixed over the lease term.

The terms of leases also require the talents to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

### (a) As lessee

At 31 December 2018, the Group had minimum outstanding commitments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

| | 2018<br>RMB'000 |
|---|---|
| Within one year | 2,273 |
| In the second and fifth years, inclusive | 835 |
| | 3,108 |

## 37. ACQUISITION OF SUBSIDIARIES

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| **Net cash inflow(outflow) arising from acquisition of** | | |
| — Today Bridge Limited (Note a) | **–** | (115,397) |
| — Shenzhen Yi Feng Network Technology Limited (Note b) | **371** | – |
| | **371** | (115,397) |

### (a) Acquisition of Today Bridge Limited ("Today Bridge")

On 13 August 2018, the Company entered into an agreement with a third party for the acquisition by the Company of 100% equity interest in Today Bridge Limited ("**Today Bridge**"). The principal asset of Today Bridge, through its PRC subsidiary, is Wantai Forest located in Jiange County, Sichuan Province, the PRC (Note 19(e)). The acquisition of Today Bridge would allow the Group to expand its core Forestry Business.

Completion of the acquisition of 100% equity interest in Today Bridge took place on 24 August 2018, and the consideration for the acquisition was satisfied by (i) payment in cash of HK$131,900,000 (equivalent to RMB115,452,000) by the Company; and (ii) issue of promissory notes by the Company with principal amount of HK$34,100,000 (Note 28(d)).

The acquisitions of Today Bridge have been accounted for as acquisition of assets. The effect of these acquisitions are summarised as follows:

| | **Total** RMB'000 |
|---|---|
| Consideration paid | |
| — Cash paid | 115,452 |
| — Issue of promissory note at fair value (Note 28(d)) | 21,825 |
| | 137,277 |

Acquisition-related costs amounting to approximately RMB417,000 have been excluded from the cost of acquisitions and have been recognised directly as an expense for the year ended 31 December 2018 and included in "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

## 37. ACQUISITION OF SUBSIDIARIES (Continued)

### (a) Acquisition of Today Bridge Limited ("Today Bridge") (Continued)

Consolidated assets and liabilities of Today Bridge recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Plantation forest assets | 115,122 |
| Prepaid land lease payments | 22,100 |
| **Current assets** | |
| Bank balances and cash | 55 |
| | 137,277 |

| | RMB'000 |
|---|---|
| ***Net cash outflow arising on acquisition*** | |
| Cash consideration paid | 115,452 |
| Bank balances and cash acquired | (55) |
| Net cash outflow on acquisition of subsidiaries | 115,397 |

### (b) Acquisition of Shenzhen YiFeng Network Technology Limited ("YiFeng")

On 1 March 2019, a wholly-owned subsidiary of the Company entered into an agreement with a third party ("**the Seller**") to acquire 100% equity interest in YiFeng for an aggregate consideration of RMB2 which was satisfied by the payment by the Group in cash. YiFeng is a limited company incorporated in the PRC. It is principally engaged in the provision of mobile services in the PRC. YiFeng was acquired so as to enable the Group to explore its business opportunity in the field of mobile services in the PRC.

The acquisition of YiFeng has been accounted for using the purchase of business method. The effects of this acquisition are summarised as follows:

| | **Total**<br>RMB'000 |
|---|---|
| Cash consideration paid | – |

Acquisition-related costs are minimal. Such costs have been excluded from the purchase consideration and have recognised as an expense for the current year.

## 37. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) Acquisition of Shenzhen YiFeng Network Technology Limited ("YiFeng") (Continued)

Assets and liabilities of YiFeng recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 134 |
| Intangible assets | 82 |
| **Current assets** | |
| Prepayments | 49 |
| Other receivables | 983 |
| Bank balances and cash | 371 |
| **Current liabilities** | |
| Other payables | (1,619) |
| Total identifiable net assets acquired | – |

| | RMB'000 |
|---|---|
| Consideration transferred | |
| — Cash paid by the Company | – |
| Recognised amount of identifiable net assets acquired | – |
| Goodwill on acquisition | – |

## 37. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) Acquisition of Shenzhen YiFeng Network Technology Limited ("YiFeng") (Continued)

| | Total<br>RMB'000 |
|---|---|
| ***Net cash inflow arising on acquisition*** | |
| Cash consideration paid | – |
| Bank balances and cash acquired | 371 |
| Net cash inflow on acquisition of subsidiary | 371 |

Included in the loss for the year is loss of RMB2,382,000 attributable to the additional business generated by YiFeng. No revenue generated from YiFeng was included in revenue of the Group for the year.

Had the acquisition been completed on 1 January 2019, revenue for the year of the Group would have been RMB54,254,000, and loss for the year would have been RMB340,797,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

## 38. DISPOSAL OF SUBSIDIARIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Cash outflow arising from disposal of<br>Exceed Target Investment Group Limited | – | (543) |
| Total cash outflow from disposal of subsidiaries | – | (543) |

### Disposal took place during the year ended 31 December 2018

The Group disposed of 100% equity interest in Exceed Target Investment Group Limited ("**Exceed Target**") on 14 December 2018 for a cash consideration of RMB93,000,000. Exceed Target, through its subsidiaries, was principally engaged in leasing of container houses.

| | RMB'000 |
|---|---|
| Consideration receivable (Note 24(b)) | 93,000 |

## 38. DISPOSAL OF SUBSIDIARIES (Continued)

### Disposal took place during the year ended 31 December 2018 (Continued)

***Analysis of assets and liabilities at the date of disposal over which control was lost***

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 76,428 |
| **Current assets** | |
| Trade and other receivables | 5 |
| Bank balances and cash | 543 |
| **Current liabilities** | |
| Trade and other payables | (139) |
| Net assets disposed of | 76,837 |

***Gain on disposal of subsidiaries***

| | RMB'000 |
|---|---|
| Consideration for disposal | 93,000 |
| Net assets disposed of | (76,837) |
| Cumulative exchange gains in respect of the net assets of the subsidiaries | 29 |
| Gain on disposal of subsidiaries | 16,192 |

***Net cash outflow arising from disposal***

| | RMB'000 |
|---|---|
| Consideration for disposal received | – |
| Less: Bank balances and cash disposed of | (543) |
| Net cash outflow arising from disposal | (543) |

## 39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Promissory notes payable RMB'000 | Corporate bonds payable RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2018 | 168,432 | 208,574 | – | 377,006 |
| Financing cash inflows | – | – | – | – |
| Financing cash outflows | (173,123) | (13,011) | – | (186,134) |
| Finance costs for the year | 12,119 | 16,270 | – | 28,389 |
| Interest payable included in other payables | (2,295) | – | – | (2,295) |
| Loss on early repayment of promissory notes | 14,501 | – | – | 14,501 |
| Promissory notes issued for acquisition of subsidiaries | 21,825 | – | – | 21,825 |
| Exchange realignment | 4,196 | 10,178 | – | 14,374 |
| At 31 December 2018 | 45,655 | 222,011 | – | 267,666 |
| Adjustment upon application of HKFRS 16 | – | – | 1,666 | 1,666 |
| At 1 January 2019 | 45,655 | 222,011 | 1,666 | 269,332 |
| Financing cash inflows | – | 28,958 | – | 28,958 |
| Financing cash outflows | (989) | (18,958) | (1,883) | (21,830) |
| Finance costs for the year | 6,777 | 16,143 | 122 | 23,042 |
| Addition of lease liabilities arising from right-of-use assets | – | – | 8,130 | 8,130 |
| Derecognition upon disposal of right-of-use assets | – | – | (1,172) | (1,172) |
| Exchange realignment | 1,124 | 5,429 | 86 | 6,639 |
| At 31 December 2019 | 52,567 | 253,583 | 6,949 | 313,099 |

## 40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2019, the Company acquired the subsidiaries, Today Bridge, and part of the consideration for the acquisition is satisfied by the issue of promissory notes, details of which are set out in Note 37(a).

## 41. PLEDGE OF ASSETS

The Group had no assets pledged as at 31 December 2019 and 31 December 2018.

## 42. RELATED PARTY TRANSACTIONS

In addition to the transactions with related parties disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties:

### Remuneration of directors and other members of key management

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Salaries and other allowances | 3,868 | 3,154 |
| Retirement benefits scheme contributions | 64 | 15 |
| | 3,932 | 3,169 |

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

### Transaction with related parties

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Underwriting commission for rights issue of shares of the Company payable to a director (Note 27(iii)) | – | 732 |

## 43. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from that of the prior year.

The capital structure of the Group consists of net debt, which includes promissory notes payable and corporate bonds payable disclosed in Note 28 and Note 29 respectively and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the raising of new debts or the repayment of existing debts.

## 44. FINANCIAL INSTRUMENTS

### (A) Categories of financial instruments

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Financial assets | | |
| Loans and receivables at amortised cost (including bank balances and cash) | **13,704** | 259,627 |
| | **13,704** | 259,627 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | **334,220** | 287,803 |
| Financial liabilities at FVTPL | | |
| Contingent consideration payable | **–** | – |
| | **334,220** | 287,803 |

## 44. FINANCIAL INSTRUMENTS (Continued)

### (B) Financial risk management objectives and policies

The Group's major financial instruments include loans receivable, trade and other receivables, bank balances and cash, trade and other payables, promissory notes payable, corporate bonds payable, lease liabilities and contingent consideration payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

***(i) Currency risk***

No significant revenue derived by the Group in respect of the years ended 31 December 2019 and 2018 were denominated in foreign currencies. Substantially all of the costs incurred for both of the years ended 31 December 2019 and 31 December 2018 were denominated in functional currencies of the group entities.

At 31 December 2018 and 2019, the Group had some significant monetary assets and liabilities which were denominated in foreign currencies.

The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

*Sensitivity analysis*

The following table demonstrates the sensitivity at the end of the reporting period to the reasonably possible change in the HK$ exchange rates, with all other variables held constant, of the Group's loss before tax.

| | | **Decrease/(increase) in loss before tax** | |
|---|---|---|---|
| | | **2019** | 2018 |
| | % | **RMB'000** | RMB'000 |
| If RMB weakens against HK$ | 5 | **(367)** | (4,286) |
| If RMB strengthens against HK$ | (5) | **367** | 4,286 |

## 44. FINANCIAL INSTRUMENTS (Continued)

### (B) Financial risk management objectives and policies (Continued)

#### *(ii) Interest rate risk*

As at 31 December 2019 and 2018, the Group was also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing floating market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for bank deposits as at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates have been 50 basis points higher/lower in 2019 and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2019 would decrease/increase by approximately RMB15,000 (2018: RMB36,000). This is mainly attributable to the Group's exposure to interest rates on its bank deposits which carried interest at floating rates.

#### *(iii) Credit risk*

The Group is exposed to credit risk and the Group's maximum exposure to credit risk in relation to financial assets is derived from its loans receivable, trade and other receivables, and deposits at banks.

Majority of the Group's bank deposits are placed in a bank which is independently rated with a high credit rating. Management does not expect any losses from non-performance by this bank as it has no default history in the past.

The Group has large number of customers and there was concentration of credit risk. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, having considered available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;

## 44. FINANCIAL INSTRUMENTS (Continued)

### (B) Financial risk management objectives and policies (Continued)

#### *(iii) Credit risk (Continued)*

- actual or expected significant changes in the operating results of the debtor/customer;

- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

*(a) Loans receivable and other receivables*

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

| Category | Group's definition of categories | Basis for recognition of expected credit loss provision |
|---|---|---|
| Performing | Customers have a low risk of default and a strong capacity to meet contractual cash flows | 12 months expected losses Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime |
| Underperforming | Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due | Lifetime expected losses |
| Non-performing | Interest and/or principal repayments are 365 days past due | Lifetime expected losses |
| Write-off | Interest and/or principal repayments are 2 years past due and there is no reasonable expectation of recovery | Asset is written off |

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

<u>Loans receivable</u>
As at 31 December 2019, the internal credit rating of the loans receivable were underperforming. The Group has assessed the expected credit loss rate for these receivables based on 12 months expected losses method which resulted in allowance for loans receivable amounted to RMB4,543,000 (2018: RMB1,514,000) recognised for the year.

## 44. FINANCIAL INSTRUMENTS (Continued)

### (B) Financial risk management objectives and policies (Continued)

#### *(iii) Credit risk (Continued)*

*(a) Loans receivable and other receivables (Continued)*

Loans receivable (Continued)

In addition, in view of the continuous recent economic downturn and uncertainty of the financial position of the borrowers, coupled with the possible deterioration of the quality of secured assets, if any, on the loans receivable, management of the Group is of the opinion that recoverability of the loans receivable is uncertain, accordingly considers it appropriate to make additional impairment loss amounted to RMB122,364,000 against the loans receivable, which was charged to profit or loss in respect of the current year.

Other receivables

The other receivables as at 31 December 2019 represent mainly the proceeds receivable from disposal of subsidiaries in prior year amounted to approximately RMB 93,000,000, of which RMB40,000,000 and RMB53,000,000 were due for settlement on 14 June 2019 and 14 December 2019 respectively. No settlement of the proceeds receivable were received by the Group up to the date of approval of the consolidated financial statements. As the proceeds receivable have been overdue for a long period of time and the financial position of the related debtor is uncertain, management of the Group is of the opinion that recoverability of the proceeds receivable is uncertain, accordingly, impairment loss amounted to RM93,000,000 was fully made against the proceeds receivable which was charged to profit or loss in respect of the current year.

*(b) Trade receivables*

The Group applies the simplified approach to provide for expected credit losses for trade receivables prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

For the year ended 31 December 2019, the Group recognised allowance for trade receivables based on the provision matrix, amounted to RMB35,803,000 (2018:Nil) . In addition, apart from the allowance calculated based on provision matrix, an additional allowance for trade receivables amounted to RMB25,747,000 (2018:Nil) was recognised for the year for certain receivables from a customer which is in financial difficulty.

As at 31 December 2018, the Group has assessed that the expected loss rate for trade receivables was immaterial. Thus no loss allowance for trade receivables was recognised.

## 44. FINANCIAL INSTRUMENTS (Continued)

### (B) Financial risk management objectives and policies (Continued)

#### *(iii) Credit risk (Continued)*

*(b) Trade receivables (Continued)*

The credit quality of the debtors is assessed based on their financial positions, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors. As at 31 December 2019, the Group had a concentration of credit risk given that the largest customer and the top 5 customers account for 46.2% (2018: 67%) and 97.7% (2018: 100%) of the Group's total year end trade receivables balance after allowance for doubtful debts respectively. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years. The Group's historical experience in collection of receivables falls within recorded allowance and the directors do not expect any major impairment on trade receivables, and receivables from other counterparties.

*(c) Cash at bank and bank deposits*

The table below shows the details of bank deposit balances maintained at the end of the reporting period:

| | Rating | 2019<br>RMB | 2018<br>RMB |
|---|---|---|---|
| Cash at banks and bank deposits | A1–Baa2 | **3,161,000** | 7,320,000 |

The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A" category is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Moody's. Accordingly, management of the Group considers that the credit risk on the bank balances and bank deposits is limited.

## 44. FINANCIAL INSTRUMENTS (Continued)

### (B) Financial risk management objectives and policies (Continued)

#### *(iv) Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and other source of funding and considers the risk is minimal.

*Liquidity tables*

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated by interest rate curve.

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these no-derivative financial assets is necessary in order to understand the Group's liquidity risk management at the liquidity is managed on a net asset and liability basis.

The amount included below for variable interest rate instruments for the non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**As at 31 December 2019**

| | On demand or within one year RMB'000 | More than 1 year but less than 5 years RMB'000 | Over 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount as at 31 December 2019 RMB'000 |
|---|---|---|---|---|---|
| Non-derivative financial assets | | | | | |
| Loans receivable | – | – | – | – | – |
| Trade and other receivables | 8,457 | – | – | 8,457 | 8,457 |
| Other deposits paid | 2,066 | – | – | 2,066 | 2,066 |
| Bank balances and cash | 3,181 | – | – | 3,181 | 3,181 |
| | 13,704 | – | – | 13,704 | 13,704 |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 21,121 | – | – | 21,121 | 21,121 |
| Promissory notes payable | 53,382 | – | – | 53,382 | 52,567 |
| Corporate bonds payable | 109,466 | 164,732 | 8,956 | 283,154 | 253,583 |
| Lease liabilities | 3,368 | 3,762 | – | 7,130 | 6,949 |
| | 187,337 | 168,494 | 8,956 | 364,787 | 334,220 |

## 44. FINANCIAL INSTRUMENTS (Continued)

### (B) Financial risk management objectives and policies (Continued)

***(iv) Liquidity risk (Continued)***

*Liquidity tables (Continued)*

**As at 31 December 2018**

| | On demand or within one year RMB'000 | More than 1 year but less than 5 years RMB'000 | Over 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount as at 31 December 2018 RMB'000 |
|---|---|---|---|---|---|
| Non-derivative financial assets | | | | | |
| Loans receivable | 36,369 | 99,410 | – | 135,779 | 124,035 |
| Trade and other receivables | 126,889 | – | – | 126,889 | 126,889 |
| Other deposits paid | 1,316 | – | – | 1,316 | 1,316 |
| Bank balances and cash | 7,387 | – | – | 7,387 | 7,387 |
| | 171,961 | 99,410 | – | 271,371 | 259,627 |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 20,137 | – | – | 20,137 | 20,137 |
| Promissory notes payable | 24,433 | 31,372 | – | 55,805 | 45,655 |
| Corporate bonds payable | 59,317 | 168,920 | 38,270 | 266,507 | 222,011 |
| | 103,887 | 200,292 | 38,270 | 342,449 | 287,803 |

### (C) Fair value measurement

***(i) Fair value of the Group's financial liabilities that are measured at fair value on a recurring basis***

The Group's contingent consideration payable is measured at fair value at the end of the reporting period. The following table gives information about how the fair value of these financial liabilities are determined, in particular, the valuation technique(s) and inputs used.

| | Fair value as at 31 December 2019 RMB'000 | 2018 RMB'000 | Fair value hierarchy | Valuation technical(s) | Inputs and key assumptions |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Contingent consideration payable | – | – | Level 3 | Probabilistic approach of management's expectations of the net profit after tax of Delaisi and discounted cash flows method used to arrive at the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration | Note 31 |

## 44. FINANCIAL INSTRUMENTS (Continued)

### (C) Fair value measurement (Continued)

*(i)* ***Fair value of the Group's financial liabilities that are measured at fair value on a recurring basis (Continued)***

There were no transfer of the financial liabilities between the levels in both of the years presented.

*(ii)* ***Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)***

The directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost in the consolidated financial statements approximate their values. The fair values, which are included in Level 3 category, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflect the credit risk of counterparties.

*(iii)* ***Reconciliation of Level 3 fair value measurements***

Reconciliation of Level 3 fair value measurements of the contingent consideration payable is as follows:

| | Contingent consideration payable | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Balance at beginning of the year | – | – |
| Materialised upon fulfillment of profit guarantee | | |
| Gain on change in fair value | – | – |
| Balance at end of the year | – | – |

## 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Non-current assets | | |
| Investments in subsidiaries | **567,470** | 579,168 |
| Property, plant and equipment | **42** | 13 |
| Right-of-use assets | **4,925** | – |
| | **572,437** | 579,181 |
| Current assets | | |
| Other receivables | **10** | 93,000 |
| Deposits paid and prepayments | **4,429** | 4,309 |
| Amounts due from subsidiaries | **25** | 80,675 |
| Bank balances and cash | **2,685** | 4,158 |
| | **7,149** | 182,142 |
| Current liabilities | | |
| Other payables | **10,874** | 11,755 |
| Amount due to a subsidiary | **63,775** | 63,426 |
| Promissory notes payable | **52,567** | 21,872 |
| Corporate bonds payable | **98,015** | 47,670 |
| Lease liabilities | **4,955** | – |
| | **230,186** | 144,723 |
| Net current (liabilities)/assets | **(223,037)** | 37,419 |
| Total assets less current liabilities | **349,400** | 616,600 |
| Non-current liabilities | | |
| Promissory notes payable | **–** | 23,783 |
| Corporate bonds payable | **155,568** | 174,341 |
| | **155,568** | 198,124 |
| Net assets | **193,832** | 418,476 |
| Capital and reserves | | |
| Share capital | **19,016** | 19,016 |
| Reserves (Note) | **174,816** | 399,460 |
| Total equity | **193,832** | 418,476 |

The Company's statement of financial position was approved and authorised for issue by the board of directors on 28 April 2020 and is signed on its behalf by:

**Wang Yue**
*Director*

**Professor Fei Phillip**
*Director*

## 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

### Note: Reserves of the Company

| | Share premium RMB'000 | Share option reserve RMB'000 (Note 34) | Translation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 527,074 | 5,476 | (22) | (221,120) | 311,408 |
| Loss for the year | – | – | – | (192,410) | (192,410) |
| Other comprehensive income for the year | – | – | – | – | – |
| Total comprehensive expense for the year | – | – | – | (192,410) | (192,410) |
| Share options lapsed during the year | – | (5,476) | – | 5,476 | – |
| Issue of shares upon right issues | 287,871 | – | – | – | 287,871 |
| Share issue expenses | (7,409) | – | – | – | (7,409) |
| At 31 December 2018 and 1 January 2019 | 807,536 | – | (22) | (408,054) | 399,460 |
| Loss for the year | **–** | **–** | **–** | **(224,644)** | **(224,644)** |
| Other comprehensive income for the year | **–** | **–** | **–** | **–** | **–** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **(224,644)** | **(224,644)** |
| At 31 December 2019 | **807,536** | **–** | **(22)** | **(632,698)** | **174,816** |

## 46. SUBSIDIARIES

Details of the material subsidiaries at the end of the reporting period are set out below:

| Name of company | Place of incorporation/ establishment/ operations | Class of shares held | Paid up registered capital | Proportion of ownership interests held by the Company Directly 2019 | Directly 2018 | Indirectly 2019 | Indirectly 2018 | Proportion of voting power held by the Company 2019 | 2018 | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|
| China Timbers Limited 中國木業有限公司 | BVI | Ordinary | US$1 | **100%** | 100% | **–** | – | **100%** | 100% | Investment holding |
| China Timbers Limited 中國木業投資集團有限公司 | Hong Kong | Ordinary | HK$1 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Shenzhen Junlifa Timbers Limited.[1,3] 深圳市君利發木業有限公司 | The PRC | Contributed capital | RMB500,000 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Jiange Hengchang Low-Carbon Forestry Development Co., Limited.[2,3] 劍閣縣恒昌低碳林業開發有限公司 | The PRC | Contributed capital | RMB1,000,000 | **–** | – | **100%** | 100% | **100%** | 100% | Forestry management |
| Jiange Kunlin Linye Company Limited[2,3] 劍閣縣坤林林業種植有限公司 | The PRC | Contributed capital | RMB1,000,000 | **–** | – | **100%** | 100% | **100%** | 100% | Forestry management |

## 46. SUBSIDIARIES (Continued)

| Name of company | Place of incorporation/ establishment/ operations | Class of shares held | Paid up registered capital | Proportion of ownership interests held by the Company | | | | Proportion of voting power held by the Company | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Directly | | Indirectly | | | | |
| | | | | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | |
| Forever Biosource (Credit) Limited 恒生源（信貸）有限公司 | Hong Kong | Ordinary | HK$1,000 | **100%** | 100% | **–** | – | **100%** | 100% | Money lending |
| Huxiang International Holdings Limited 湖湘國際控股有限公司 | BVI | Ordinary | US$10,000 | **100%** | 100% | **–** | – | **100%** | 100% | Investment holding |
| Hengfeng Investments Holdings Limited 恒豐投資控股有限公司 | Hong Kong | Ordinary | HK$10,000 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Kaixuan Muye (Shenzhen) Limited [1,3] 凱軒木業（深圳）有限公司 | The PRC | Contributed capital | HK$3,000,000 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Jiange Senbo Linye Company Limited [2,3] 劍閣縣森博林業有限公司 | The PRC | Contributed capital | RMB1,000,000 | **–** | – | **100%** | 100% | **100%** | 100% | Forestry management |
| Gorgeous City Investment Limited | BVI | Ordinary | US$12,500 | **100%** | 100% | **–** | – | **100%** | 100% | Investment holding |
| Sunny Land Capital Limited | BVI | Ordinary | US$50,000 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Paracelsus Swiss Limited | Hong Kong | Ordinary | HK$100,000 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Sunny Land Trading Limited 日地貿易有限公司 | Hong Kong | Ordinary | HK$1 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Shenzhen Heng Fu Delaisi Intelligent Housing Limited [1,3] 深圳恒富得萊斯智能房屋有限公司 | The PRC | Contributed capital | RMB1,000,000 | **–** | – | **100%** | 100% | **100%** | 100% | Container houses services |
| Xiangyin Heng Fu Delaisi Intelligent Housing Limited [2,3] 湘陰恒富得萊斯智能房屋有限公司 | The PRC | Contributed capital | RMB650,000 | **–** | – | **100%** | 100% | **100%** | 100% | Container houses services |
| 深圳恒泰集成房屋有限公司 [2] (前稱：深圳前海得萊斯智能房屋有限公司 | The PRC | Contributed capital | RMB830,000 | **–** | – | **100%** | 100% | **100%** | 100% | Container houses services |
| Noble Bridge Investment Holdings Limited 富橋投資控股有限公司 | BVI | Ordinary | US$1 | **100%** | 100% | **–** | – | **100%** | 100% | Investment holding |
| Shenzhen YiFeng Network Technology Limited [7] 深圳市億灃網絡科技有限公司 | The PRC | Contributed capital | RMB1,000,002 | **100%** | – | **–** | – | **100%** | – | Trading mobile phone |
| Noble Bridge Investment Holdings Limited 富橋投資控股有限公司 | Hong Kong | Ordinary | HK$10,000 | **–** | – | **100%** | 100% | **100%** | 100% | Inactive |
| Garden Glaze Limited [4] | BVI | Ordinary | US$1,000 | **100%** | 100% | **–** | – | **100%** | 100% | Investment holding |
| High Centre Limited [4] 軒中有限公司 | Hong Kong | Ordinary | HK$1 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Shenzhen Shengshi Zhiyou Forestry Limited [1,3,4] 深圳市盛世智友林業有限公司 | The PRC | Contributed capital | RMB500,000 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Jiange Ruixiang Linye Company Limited [2,3,4] 劍閣縣瑞祥林業有限公司 | The PRC | Contributed capital | RMB1,000,000 | **–** | – | **100%** | 100% | **100%** | 100% | Forestry management |
| Today Bridge Limited [6] | BVI | Ordinary | US$1,000 | **100%** | 100% | **–** | – | **100%** | 100% | Investment holding |
| Today Bridge Limited [6] | Hong Kong | Ordinary | HK$10,000 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |
| Xinglonghe Shiye (Shenzhen) Limited [1,3,6] 興隆和實業（深圳）有限公司 | The PRC | Contributed capital | RMB1,000,000 | **–** | – | **100%** | 100% | **100%** | 100% | Investment holding |

## 46. SUBSIDIARIES (Continued)

| Name of company | Place of incorporation/ establishment/ operations | Class of shares held | Paid up registered capital | Proportion of ownership interests held by the Company | | | | Proportion of voting power held by the Company | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Directly | | Indirectly | | | | |
| | | | | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | |
| Jiange Wantai Linye Limited [2,3,6] 劍閣縣萬泰林業有限公司 | The PRC | Contributed capital | RMB1,000,000 | – | – | 100% | 100% | 100% | 100% | Forestry Management |

1 These entities are registered as wholly-foreign owned enterprises under the PRC laws.
2 These entities are registered as limited liability enterprises under the PRC laws.
3 The English transliteration of the Chinese name is for identification purpose only and should not be regarded as the official English name.
4 The subsidiaries were acquired by the Group on 6 June 2017.
5 The subsidiary was acquired by the Group on 21 November 2017.
6 The subsidiaries were acquired by the Group on 24 August 2018.
7 The subsidiary was acquired of by the Group on 1 March 2019.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

## 47. EVENTS AFTER THE REPORTING DATE

The following events took place subsequent to the end of the reporting period,

(1) The Company changed its name from "China Agroforestry Low-Carbon Holdings Limited" to "China Bozza Development Holdings Limited" with effect from 5 March 2020, details of which are set out in note 1 above.

(2) Since early 2020, the epidemic of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") has spread across China and other countries and it has affected the business and economic activities of the Group to some extent. The overall financial effect of the above cannot be reliably estimated as of the date of this report. The Group will pay close attention to the development of the COVID-19 outbreak and continue to evaluate its impact on the market, the financial position and operating results of the Group.